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VOL. 77, NO. 5

Nation's Business®

Published by the U.S. Chamber of Commerce Washington, D.C.

MANAGING YOUR BUSINESS



PHOTO: ©CHUCK KNEYSE—BLACK STAR

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Women's business ownership is coming of age; Diane Graham's success typifies reasons for this development.



PHOTO: ©ED MAHAN

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Ed Snider turned Philadelphia's financially crippled Spectrum arena into the keystone of a sports empire.

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PHOTO: ©NIK WHEELER—BLACK STAR

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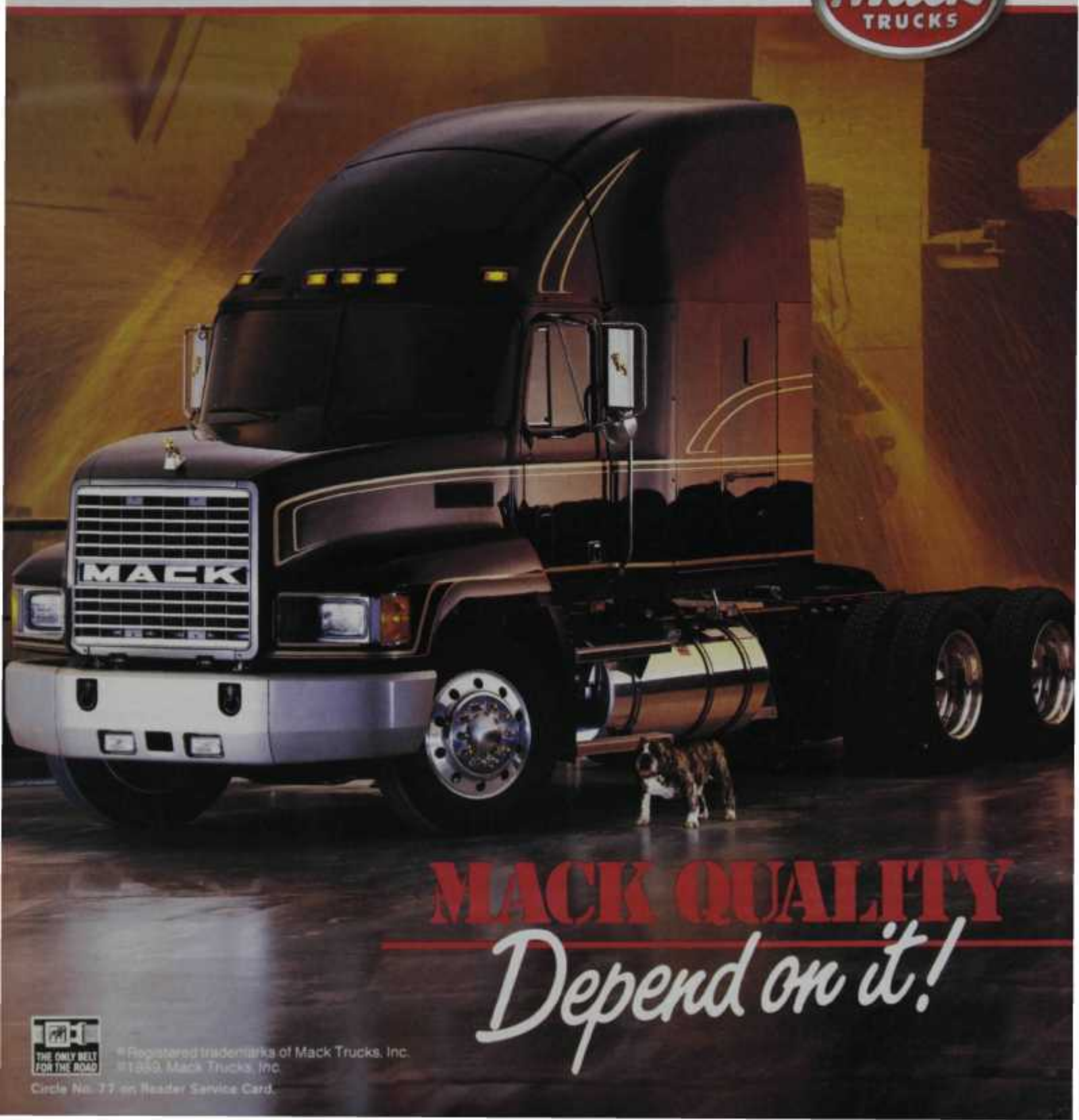
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Nation's Business (ISSN 0028-047X) is published monthly at 1615 H Street, N.W., Washington, D.C. 20062. Tel. (202) 463-5650 (editorial). Advertising sales headquarters: 711 Third Ave., New York, N.Y. 10017. Tel. (212) 370-1440. Copyright © 1989 by the United States Chamber of Commerce. All rights reserved. Subscription prices (United States and possessions): one year, $22; two years, $35; three years, $46. In Canada and all other foreign subscriptions, add $10 per year. In combination with the newspaper *The Business Advocate*, one year, $50; two years, $85; three years, $99. Printed in U.S.A. Second class postage paid at Washington, D.C., and additional mailing offices. *Postmaster:* Please send form 3579 to 4940 Nicholson Court, Kensington, Md. 20895. Subscriber Service: 1-800-638-6582 (in Maryland, 1-800-352-1450).

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COMMENTARY

Letters

Getting By On Less

I was glad to see Paul N. Strassels' article "A Spouse's Income Costs As Well As Pays" ["It's Your Money," March]. As a former working mother, I have been telling people that our family is doing almost as well financially as we were when I was working, and a lot of them find it hard to believe.

My husband and I considered all the costs involved in keeping my job after our second child was born, and we decided it was not worth the strain on our relationship and the worry about our children. It is possible to get by on less as long as you have your priorities in order, but it's not as "less" as most people might think.

Marybeth Lewis
Port Charlotte, Fla.

Section 89 Repeal

I read with great interest your update on the fight in Congress to repeal Section 89 of the federal tax code ["A Push To Repeal Section 89," March].

I'd like to point out, though, that the effort to eliminate these outrageous new regulations isn't limited to the House of Representatives. I have cosponsored legislation in the Senate to repeal Section 89, and the Senate Small Business Committee (of which I am a member) will soon hold hearings on this issue.

I urge the readers of *Nation's Business* to send in their real-life stories about trying to comply with Section 89, so that we in Congress will have the ammunition we need to prove that these rules have got to go.

Sen. Robert W. Kasten Jr.
Washington, D.C.

A Family Affair

I read your article "Fathers And Sons: No Easy Business" [February]. I appreciate your mention of my article and wanted to let you know that so far things are turning out quite well. I agree with your conclusion that when a parent invites, rather than pressures, a child into the business, the likelihood of a successful outcome is more assured.

You mentioned that you did not know how the Kiam story will turn out. Frankly, I do not know either, but I am working hard to see that it is successful. One of the activities that Dad and I continue to enjoy (and also use to build the relationship) is our tennis camaraderie. We want other fathers and sons



PHOTO: © CARY WOLINSKY—UNIPHOTO

After they calculate the taxes and extra expenses required to bring in a second income, some two-earner couples decide they are just as well off with one paycheck.

(as well as mothers and daughters) to have the same closeness Dad and I have achieved. Thus, Remington Products sponsors the world's only International Family Tennis championships.

Tory Kiam
Remington Products Inc.
Bridgeport, Conn.

Caption Correction

I was astonished at a photo caption in the insert on Greece contained in the April issue of *Nation's Business* that reads: "Foreign firms investing in Greece will benefit from an abundance of low-cost energy, which is derived from sources as diverse as the sun and nuclear fission." The caption's first assertion is true, but the second is inaccurate and in sharp contrast with the stated position of the Greek government against the use of nuclear power, even for commercial purposes, because of concern for human safety.

Julia Panourgia Clones
Embassy of Greece
Washington, D.C.

[EDITOR'S NOTE: The photo shows a nitrogenous-fertilizers plant. As text on that page notes, Greece's energy resources include lignite, coal, hydroelectric power, solar energy, and oil—but not nuclear power.]

In Defense Of Integrity Tests

Your article "Tests To Target Dependability" [March] inappropriately endorses the Stanard "dependability" tests for screening job applicants. In doing so, the article unfairly criticizes the longstanding use of fully validated integrity tests.

The author quotes a psychologist, Dennis Sweeney, who states that integrity tests have "almost no independent confirmation of [integrity] test validity," that their questions tend to allow "sociopathic personalities to pass undetected," and they "do little more than predict how people would do on a polygraph examination." With regard to the Reid Report and several other similar instruments, Sweeney's assertions are incorrect, as professionals familiar with the field know.

First, the Reid Report has enjoyed over 30 years of pioneering psychometric research, and it was acknowledged in 1971 as having a very high predictive validity in a study published by the *Journal of Applied Psychology*. This study demonstrated Reid Report validity not against the polygraph but against specific on-the-job counterproductive acts either admitted by the subject or detected by management. Bibliographies compiled since 1971 on honesty-test research count over 50 published studies on the Reid Report and related tests.

In regard to screening out sociopaths, the Reid Report results have been shown to correlate highly with various pathological profiles, and the report has repeatedly been shown to select well-balanced individuals. Users typically experience a halving of internal theft and turnover and achieve higher productivity.

Ryan A. Kuhn
President
Reid Psychological Systems
Chicago

Dennis Sweeney says that serious problems exist with honesty tests because no independent validation research has been done. This is not true.

All of the major developers of integrity tests conduct extensive validation research, both in-house and through colleges and universities. The major developers of integrity testing have conducted validation studies in prisons

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

on the very sociopathic personalities Mr. Sweeney says can readily beat the instrument. All of the studies of inmates in prisons clearly demonstrate that they cannot do so.

Business protection is an essential part of business survival. Businesses must develop a systematic approach to pre-employment screening and hiring. The survival of our businesses depends on the quality of our employees.

Gary F. Davis
Executive Director
Information Services
Wichita, Kan.

I was asked for my opinions on the use of honesty tests as a general class of measures, not the Reid Report in particular. I do not believe it is appropriate to either credit or discredit a specific measure without assessing its merits through research spelled out in the *Standards for Educational and Psychological Testing*, published by the American Psychological Association.

I stand by my remarks. I believe that tests should be evaluated on a case-by-case basis before a decision is made to use them to screen job applicants. I believe that any business should be cautious in using test scores to make employment decisions and should carefully and professionally validate them. Misapplying a test can have serious consequences for an organization, including potential discrimination suits.

Dennis C. Sweeney
Vice President
Partners in Change
Pittsburgh, Pa.

Bar Codes Make "Posthaste"

I found Leila Davis' article "Wider Uses For Bar Codes" [March] both interesting and informative. I would, however, like to make you aware of another place bar codes appear: the U.S. Postal Service.

The computerized mail-processing machines used by the U.S. Postal Service use a bar code sprayed onto the mail, thus allowing machines to sort up to 36,000 pieces of mail per hour.

Businesses can save money if they have a bar code printed on their business-reply mail. Firms considering using a bar code on their mail should contact the Postal Service for specifications and requirements.

Gary F. Wisner
Supervisor of Mails
U.S. Postal Service
Milwaukee

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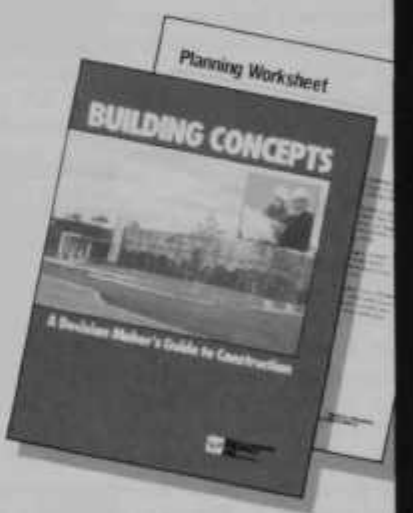
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Small-Business Update

By Donald C. Bacon

Fewer Businesses Calling It Quits

The rate of business failures in 1988 posted the sharpest annual decline in a decade, according to the Dun & Bradstreet Corp.

Improved business performance, led by dramatic rebounds in the agriculture and oil-based sectors of the economy, contributed significantly to a 6.6 percent drop in the number of failures last year, the business-information company said.

Dun & Bradstreet reported a total of 57,098 failures for the year, down from 61,111 in 1987.

The Dun & Bradstreet record of business closings, which include bankruptcies, foreclosures, and court-ordered receiverships, has declined two years in a row, following eight years of increases.

"The significant decline in failures underscores the continued strength of the economy, now in its seventh year," says Joseph W. Duncan, the firm's corporate economist and chief statistician. "The nation's weakest regions are showing improvements, while those areas that led the expansion are holding their own."

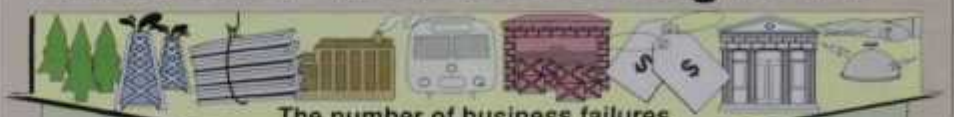
Failures decreased most sharply, Duncan says, in the farming states of the West North Central region and the oil-producing states of the West South Central region.

Agriculture failures fell 51.6 percent, to 1,823 in 1988 from 3,766 in 1987.

In the mining sector, which includes oil and gas extraction, failures dropped 21.2 percent, to 494 from 627.

Duncan says the service sector's lower failure rate followed three years of increased business failures attributable primarily to "strong entrepreneurial activity, increasing competition, and sustained weakness in the petroleum states." That trend, he adds, "is now subsiding."

Business Failures Heading Down



The number of business failures by industry:

Industry	1988	1987	% Change
Agriculture, forestry, fishing	1,823	3,766	-51.6
Mining (includes oil and gas)	494	627	-21.2
Construction	6,791	6,735	0.8
Manufacturing	4,204	4,273	-1.6
Transportation, public utilities	2,090	2,236	-6.5
Wholesale trade	4,455	4,336	2.7
Retail trade	11,488	12,240	-6.1
Finance, insurance, real estate	2,577	2,550	1.1
Services	22,686	23,802	-4.7
Nonclassifiable	490	546	
Total	57,098	61,111	-6.6

Source: Dun & Bradstreet Corp.

CHART: MARCY MULLINS

New Rule On "Helpers" May Soften Davis-Bacon Impact

Smaller construction firms should benefit from a new Labor Department rule allowing contractors to make greater use of "helpers" on federal projects covered by the Davis-Bacon Act.

Helpers are semiskilled workers who assist journeymen. Under previous regulations, contractors often were required to classify and pay their helpers at journeyman rates, or to employ journeymen for tasks usually assigned to semiskilled workers. The requirement frequently resulted in artificially high construction costs.

Nancy Fulco, associate manager for legislation at the Small Business Center of the U.S. Chamber of Commerce, hailed the new regulations as "a positive step" toward reform of the Davis-Bacon Act.

"The regulations will have a beneficial impact on contractors, especially small ones, who should find themselves more competitive," Fulco added. "And, on a yearly basis, the federal government should enjoy savings estimated in the hundreds of millions of dollars."

Entrepreneurial Bug Biting More Older Americans

The next major wave of entrepreneurial activity will include an unusually high proportion of older Americans, the Roper Organization forecast in a recent issue of its publication, *The Public Pulse*.

According to conventional wisdom, people who start businesses generally do so before they turn 40.

But the Roper Organization, a market-research firm based in New York, says that a number of social forces are pointing toward the emergence of an older class of entrepreneurs.

Increasing numbers of older employees want to keep working after the "normal" retirement age. They have the money to invest in their own enterprises.

And developments in health and medicine have greatly improved the physical fitness of older Americans. "These people thus have the energy to run their own businesses," says Roper.

Good businesses for older entrepreneurs?

Roper suggests consulting of all kinds, financial management, community services, boutiques, and restaurants.

"An Environment That Everyone Can Use"

Businesses that invest in barrier-free design can expect returns far beyond increased patronage from the handicapped, reports an organization that helps people with disabilities lead more self-sufficient lives.

June Isaacson Kailes, executive director of the Westside Center for Independent Living Inc., Los Angeles, says,

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"Paying attention to barrier-free design can increase your market share, your sales, and customer convenience while it decreases your tax liability and insurance claims."

Such design, she adds, includes parking spaces that are designated for the handicapped, curb ramps, wide entries without steps, railings where there are steps, easily reachable elevator buttons, bathrooms designed with wide stalls and with grab bars, adequate lighting, and a well-planned acoustic environment.

Barriers, Kailes says, are problems for anyone whose mobility is limited by factors such as size, age, pregnancy, vision, hearing, broken bones, sprains, arthritis, bad knees, or a bad back.

In addition, she points out, barriers are problems for those—regardless of their health—who ride bicycles, carry heavy packages, push baby carriages, or pull shopping carts.

"The reality is that a barrier-free accessible environment accommodates and benefits everyone by taking into account the full array of human conditions," Kailes says. "It is designing an environment that everyone can use."

Entrepreneurs Should Approach Superconductivity Warily

Coopers & Lybrand advises entrepreneurs interested in developing products based on superconductivity to determine the interest of venture capitalists in that technology before submitting an investment plan.

The accounting and management-consulting firm says the glowing forecasts of future commercial applications for superconductivity may be stirring the imaginations of Americans generally but have not yet stirred sources of investment capital.

Superconductivity—the term used to describe the total disappearance of electrical resistance in a substance at a low temperature—has been hailed as the next great technological revolution.

A number of scientific experts maintain that the ability to retain superconductivity at or near room temperature could lead eventually to a vast array of new products, such as ultrafast computers and high-speed trains that would be propelled by magnetic force.

But a majority of 100 active providers of risk capital interviewed by Coopers & Lybrand expressed unwillingness to invest in programs to perfect the technology.

Sixty percent of those interviewed said the wait for financial return was too long; others found the risk too high.

Only 15 percent said they were committed to actual investment in superconductivity. Entrepreneurs should focus on specific superconductivity applications to avoid making their ventures sound like research projects, the study said.

Superconductor pellets are shown suspended below a magnet. The superconductors had just been removed from liquid nitrogen in a petri dish.



PHOTO: © AT&T LIBRARY NETWORK ARCHIVES

This Month's NB TIPS

A new guide from the Price Waterhouse accounting firm can help employers avoid expensive penalties in trying to comply with requirements of the Consolidated Omnibus Budget Reconciliation Act (COBRA). Under the law, employers offering employee health plans must give outgoing workers and their families an opportunity to continue their coverage through the employer's plan after leaving the company. *The COBRA Handbook* ($175 per volume or $125 for multiple copies) may be ordered from Thomas Blommers, Price Waterhouse, 555 California St., San Francisco, Calif. 94104.

Careful selection of a testing laboratory is a key consideration for employers planning to test employees or job applicants for drug abuse, says the College of American Pathologists. To help employers make informed decisions, the CAP has produced a 12-minute video, *Employee Drug Testing*. The video (VHS at $25 or U-Matic at $45) may be ordered from the CAP, 5202 Old Orchard Rd., Skokie, Ill. 60077. Call (312) 966-5700 for more information.

Midterm Complacency Can Be Dangerous

Complacency in the middle years of a top executive's tenure is a frequently unrecognized danger that can impede the economic and competitive health of a business, concludes a senior vice president of Arthur D. Little Inc., who studied the problem. Arthur D. Little is a management and technology consulting firm based in Cambridge, Mass.

Samuel C. Fleming notes in a report that much has been written about the challenges facing an executive upon assuming control of a business. But he says that little has been done on the period after the executive has put new policies and people in place and has achieved a measure of stability in the company.

"In that stability lurks danger," Fleming warns.

He says the complacent executive risks being blindsided by a competitor's initiatives "at the very time that things are going well in terms of noticeable results."

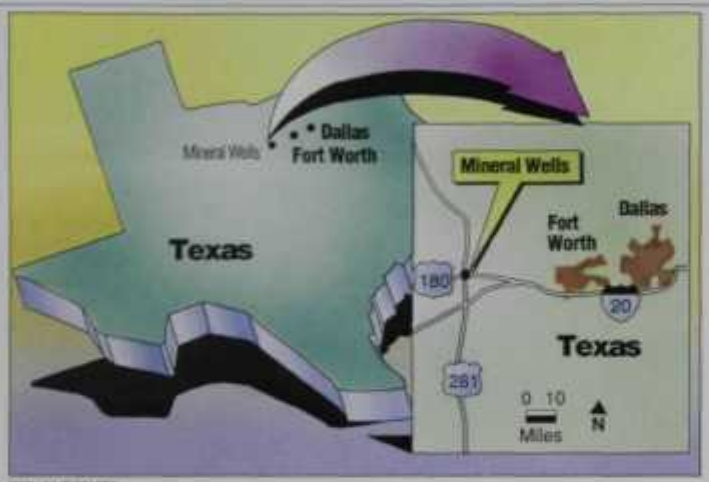
Fleming recommends that executives launch special strategic and operating initiatives during what he calls the midterm period.

Such actions, he explains, can "extend the gains from earlier initiatives and take the organization to new levels of achievement." NB

Closing A Base Opens Doors

Communities worried about military-base pullouts can take heart from Mineral Wells, Texas: Life does go on after the troops depart.

By Donald C. Bacon



MAP: JULIE STACEY



PHOTO: T. MICHAEL KEZA



When the Army closed its primary helicopter school at Fort Wolters, Texas, in 1973, nearby Mineral Wells could well have folded too. At the time, most outsiders saw a bleak future for the

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g everything from mobile-ra-nas to burial caskets.

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fied, mostly industrial economy. Where as many as 7,000 soldiers once assembled and hundreds of rotary-wing aircraft took off and landed daily, dozens of new tax-paying industries are busily

"Paying attention to barrier-free design can increase your market share, your sales, and customer convenience while it decreases your tax liability and insurance claims."

Such design, she adds, includes parking spaces that are designated for the handicapped, curb ramps, wide entries without steps, railings where there are steps, easily reachable elevator buttons, bathrooms designed with wide stalls and with grab bars, adequate lighting, and a well-planned acoustic environment.

Barriers, Kailes says, are problems for anyone whose mobility is limited by factors such as size, age, pregnancy, vision, hearing, broken bones, sprains, arthritis, bad knees, or a bad back.

In addition, she points out, barriers are problems for those—regardless of their health—who ride bicycles, carry heavy packages, push baby carriages, or pull shopping carts.

"The reality is that a barrier-free accessible environment accommodates and benefits everyone by taking into account the full array of human conditions," Kailes says. "It is designing an environment that everyone can use."

This Month's NB TIPS

A new guide from the Price Waterhouse accounting firm can help employers avoid expensive penalties in trying to comply with requirements of the Consolidated Omnibus Budget Reconciliation Act (COBRA). Under the law, employers offering employee health plans must give outgoing workers and their families an opportunity to continue their coverage through the employer's plan after leaving the company. *The COBRA Handbook* ($175 per volume or $125 for multiple copies) may be ordered from Thomas Blommers, Price Waterhouse, 555 California St., San Francisco, Calif. 94104.

Careful selection of a testing laboratory is a key consideration for employers planning to test employees or job applicants for drug abuse, says the College of American Pathologists. To help employers make informed decisions, the CAP has produced a 12-minute video, *Employee Drug Testing*. The video (VHS at $25 or U-Matic at $45) may be ordered from the CAP, 5202 Old Orchard Rd., Skokie, Ill. 60077. Call (312) 966-5700 for more information.

Entrepreneurs Should App Superconductivity Warily

Coopers & Lybrand advises neurs interested in developing based on superconductivity mine the interest of venture in that technology before subi investment plan.

The accounting and man consulting firm says the glov casts of future commercial ap for superconductivity may b the imaginations of American ly but have not yet stirred s investment capital.

Superconductivity—the ter describe the total disappearan trical resistance in a substanc temperature—has been haile next great technological revol

A number of scientific exp tain that the ability to retain ductivity at or near room ter could lead eventually to a vas new products, such as ultra puters and high-speed trains t be propelled by magnetic forc

But a majority of 100 active of risk capital interviewed by & Lybrand expressed unwillingness to invest in programs to perfect the technology.

Sixty percent of those interviewed said the wait for financial return was too long; others found the risk too high.

Only 15 percent said they were committed to actual investment in superconductivity. Entrepreneurs should focus on specific superconductivity applications to avoid making their ventures sound like research projects, the study said.

Superconductor pellets are shown



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Midterm Complacency

term period.

Such actions, he explains, can "extend the gains from earlier initiatives and take the organization to new levels of achievement." NB

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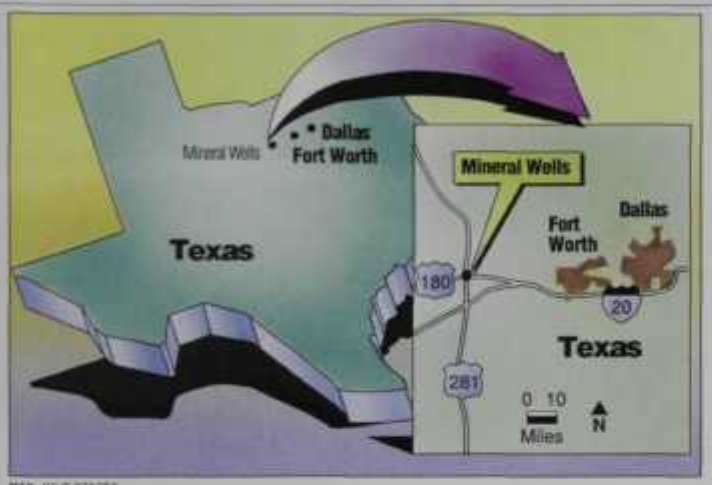
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Closing A Base Opens Doors

Communities worried about military-base pullouts can take heart from Mineral Wells, Texas: Life does go on after the troops depart.

By Donald C. Bacon



MAP: JULIE STACEY



PHOTO: T. MICHAEL KEZA

When the Army closed its primary helicopter school at Fort Wolters, Texas, in 1973, nearby Mineral Wells could well have folded too. At the time, most outsiders saw a bleak future for the remote community of 15,000 without the military to prop up its economy.

But the people of Mineral Wells had their own ideas. "We decided that if Fort Wolters couldn't be used one way, then it could be used another way," recalls Ellis White, who was the city's mayor when the base was closed. He led a community effort to acquire the abandoned facility and revive it as a major contributor to local well-being.

Today, the old Army post has been reborn as a thriving industrial complex and a center for education, social services, and recreation. Local leaders believe their city has a sounder economic base and its people are more confident about the future than they were in the peak Army years. "That post couldn't be reactivated now," says the current mayor, Willie Casper. "The people here wouldn't stand for it."

This year, anxious communities across the country are wondering about their own economic futures as Congress weighs the recommendation of the Defense Secretary's Commission on Base Realignment and Closure to shut down 86 domestic military installations over the next several years. Many of those communities could take heart from places like Mineral Wells, whose experiences show that life does go on, often more richly than before, after the Army, Navy, or Air Force pulls out of an area. "Losing a military facility can be tremendously painful for a community, but it also can be an opportunity," says William Rivers, former Mineral Wells city manager.



PHOTO: T. MICHAEL KEZA

Wolters Industrial Park, in Mineral Wells, Texas, drew Optek Technology, where Mayor Willie Casper, left, and plant manager Ralph Whitlow watch Loretta Davis assemble a component.

Mineral Wells today enjoys a diversified, mostly industrial economy. Where as many as 7,000 soldiers once assembled and hundreds of rotary-wing aircraft took off and landed daily, dozens of new tax-paying industries are busily producing everything from mobile-radio antennas to burial caskets.

Many businesses have spilled over into industrial areas near the old military reservation. They include the area's leading employer, Mepco/Centralab Inc., an electronics manufacturer, and Century Flight Systems, a maker of autopilots.

Units of large companies—such as Halliburton, Optek Technology, and Perry Equipment—make their home on the old post, as do smaller firms.

Also, operating out of the substantial academic and recreational facilities left by the Army, local agencies and nonprofit groups are providing a level of

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Closing A Base Opens Doors

public services seldom found in a community the size of Mineral Wells. They include a youth home, health and welfare programs, a Headstart school, a gymnasium, tennis courts, playgrounds, an Olympic-sized swimming pool, an activities center, and a Texas National Guard training area.

Residents now can attend college locally by enrolling at Weatherford College's West Campus, housed in an attractive cluster of former Army academic and training buildings. Some 400 students are currently enrolled.

Private companies in or near what is now Wolters Industrial Park are providing more than 2,600 new jobs for local workers, about double the number of local civilians who had been employed by the Army. In the early 1980s, before falling oil prices sent most of Texas, including Mineral Wells, into an economic slump, the increase in jobs had been even greater. The downturn has forced several oil-related businesses in the area to cut back employment.

In 1983, 10 years after the Army left, Mineral Wells' unemployment rate was lower than the rates for Texas and the nation. Today, at 6.7 percent, it is about the same as that for all of Texas.

Mineral Wells' success in coping with the closing of a military installation is far from unique. Some communities, particularly those in or near urban industrial areas, have recovered faster and better. For most others, the loss has not proved to be the economic disaster they had feared. Defense Department studies show that even where the military had been the biggest local employer, most communities rebounded within two or three years.

For instance, in Moses Lake, Wash., thriving private businesses, a college, a municipal airport, and an aircraft-testing site now occupy facilities vacated when Larson Air Force Base closed in 1966. Some 800 area residents work on the former base, compared with 38 when the Air Force was the employer.

Kinross Township, Mich., lost its biggest employer in 1978 when the Air Force closed a nearby Strategic Air Command base. Now the home of some 50 businesses, the old base generates far more jobs for civilian workers than it did before the military left.

In Raritan, N.J., 2,600 civilians lost their jobs in 1965 when the Army closed Raritan Arsenal, a huge munitions depot. Private developers bought the site and made it into a major business park,



Jackie Craver, executive vice president of the Mineral Wells Chamber of Commerce, and newspaperman Gary Adkisson confer outside the Chamber's new building.

PHOTO: T. MICHAEL KEZA

where some 250 companies now employ more than 13,000 workers.

The Pentagon in 1986 studied 100 communities affected by military-base closings since 1961. It found that, when converted to civilian uses, the old installations had attracted enough private businesses nationwide to more than offset lost military-related jobs.

Training schools and colleges used federal programs to acquire vacated facilities on more than half the bases. Forty-two communities transformed abandoned military airfields into municipal and private airports.

The people of Mineral Wells attribute much of their success in replacing the loss to their economy to the spirit and determination with which the whole town pulled together—once people accepted the fact that Fort Wolters really was shutting down.

Former Mayor White recalls that the Mineral Wells community told the Army: "If you're going to close the post, give it to us, and we'll find better uses for it." Ultimately, the Army agreed.

Fortunately for Mineral Wells and other communities faced with losing a military base, there are places to turn for help. Congress years ago recognized the local implications—political as well as economic—of closing military installations. It sought to ease the losses by giving communities preference in determining future uses for any surplus land and facilities resulting from such closures. It created a special office, the President's Economic Adjustment Committee, within the Defense Department to assist affected communities and to serve as their focal point with the federal bureaucracy. It also set up programs to help displaced employees find other defense work and to have the government purchase their homes at fair prices if a base closure unduly depressed local real-estate prices.

Overall, programs of various agencies provided $80 million to $90 million a year in assistance to communities affected by base closures from 1973 to 1980. Those programs remain essentially in place today, although most will require new appropriations if Congress, as expected, declines to block the base closings proposed last December.

Mineral Wells officials say they have few complaints about the help they received in the 1970s. Says White: "The Economic Assistance Committee directed us to the right agencies. Later, we worked mainly with the General Services Administration, and we found them to be very cooperative."

In fact, the GSA, which handles the disposal of surplus land and facilities in military closures, went along with most of the community's requests. For instance, the city applied for and quickly received 3,000 acres of undeveloped land for a park. The parcel has since become a popular state park that attracts 300,000 visitors a year.

The GSA also turned over to the city other properties for public use—including buildings and equipment, recreational facilities, and all the post's streets and utilities.

The GSA offered to sell to the city at bargain-basement prices those parts of Fort Wolters with industrial or commercial potential—954 acres with streets, utilities, and 953,000 square feet of improvements. In the offer were warehouses, offices, maintenance shops, classrooms, barracks, stores, and "the world's largest" heliport, which could serve 650 helicopters at a time. Many buildings came furnished.

In the property, White and other city leaders saw the makings of a viable industrial complex. There were scores of buildings suitable for conversion to almost every sort of business, from heavy industry to small entrepreneurial firms. The goal was to acquire the properties and get private employers into them as soon as possible.

The problem was that, by law, the GSA could offer negotiated prices only to the city. And city leaders were reluctant to commit taxpayers to an expensive real-estate venture that was speculative at best.

Any GSA sales directly to private purchasers would have required competitive bidding. Higher prices almost

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certainly would have resulted. As the community saw it, the higher the cost, the fewer businesses might be interested in coming to Mineral Wells.

The solution, worked out locally and accepted by the GSA, was ingenious. A business operator wanting to locate in Mineral Wells would choose a property it wanted. The city would buy the property from the GSA and pass it on at the government price to the Mineral Wells Industrial Foundation. The foundation, in turn, would lease or sell the property at little or no markup to the private business. The transactions would occur almost simultaneously. The law would be satisfied, the city would remain free of debt, and the user would be assured of a rock-bottom price.

Mineral Wells' business and civic leaders have concluded that the Army's departure, though painful, provided the kick that the community needed to launch a long-overdue economic-diversification program.

Since its founding in 1877, Mineral Wells had tied its fate to the fortunes of one industry or another, always to its ultimate disappointment. "We have a history of being wiped out when an industry goes down," says Harold W. Shields, district manager of Texas Power and Light Co. and president of the Mineral Wells Industrial Foundation.

The city's first driving force was tourism, fueled by the alleged curative powers of the local water. Numerous luxury hotels sprang up around the lucrative wells in the early 1900s. After the U.S. Food and Drug Administration halted purveyors' most extravagant claims about the water's healing powers, the boom in tourism collapsed.

In 1940, the Army built Camp Wolters, a huge infantry-retraining center, which could process 50,000 soldiers at a time. It was dismantled after the war. Wolters Air Force Base, another training facility, opened in 1951; it lasted six years. Then the Army, deciding the north central Texas weather and terrain were ideal for combat helicopter training, announced the establishment of Fort Wolters in 1956.

On the Army's pledge that it was in Mineral Wells for the long haul, the city approved bond issues for new schools and expanded services to accommodate a flood of temporary residents. Merchants modernized their stores, and real-estate investors built apartments and financed hundreds of new homes for the post's workers.

In 1971, the Army announced its intention to close Fort Wolters and transfer its operations to Fort Rucker in Alabama. The people of Mineral Wells felt betrayed. Some fought angrily to keep the post open. Finally, however, the community accepted the closure as inevitable, and leaders began to plan for a post-military economy.

The city has come a long way since then. But even its staunchest supporters admit that problems remain. Productive uses still have not been found for significant parts of the old post. In an older section, vacant wooden buildings are deteriorating. Elsewhere, dozens of usable barracks stand empty, awaiting a sound business idea.

Jackie Craver, executive vice president of the Mineral Wells Chamber of Commerce, says she gets inquiries from people with business ideas for the base's partially equipped hospital, but so far nothing has jelled.

Meanwhile, Mineral Wells is moving ahead on other fronts. Tourists attracted to nearby Possum Kingdom Lake and Lake Mineral Wells State Park are helping to lift the economy. A new Vanity Fair factory-outlet mall is expected to lure shoppers from as far away as Fort Worth and Dallas.

"Statewide, we are still thought of as a city of mineral water and Fort Wolters—a city of the past," says Gary Adkisson, general manager of the daily *Mineral Wells Index*. "People don't realize that we have moved on. We have a manufacturing economy now. Tourism is a big part, but it is not what will drive us into the next century. Our future is in manufacturing."

The people of Mineral Wells seldom mention Fort Wolters any more. A few say, when asked, that they would welcome the military back. But most—the overwhelming majority—believe Mineral Wells is much better off now than when its destiny was controlled by outside forces. Many seem to share the view of Duncan Gault, an attorney and long-time Mineral Wells resident. "Industry is our best bet," he says. "Industry won't close on a whim." NB

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Catalog Furniture

I am interested in starting a discount-furniture-ordering facility in the Michigan area, where customers order fabric samples and furniture from catalogs supplied by the manufacturers. The operation would be similar to some of the discount facilities in the Carolinas, which sell furniture for approximately 40 percent off the price charged by local furniture stores. Is there a list of furniture manufacturers that might be interested in such an operation? Is there any information on how to start such a business in Michigan?
R.T., Rochester Hills, Mich.

The American Furniture Manufacturers Association, Box HP-7, High Point, N.C. 27261; (919) 884-5000, sells a list of addresses and product lines of its approximately 400 members for $40 prepaid. You would have to contact them individually to find those who might be interested in discount catalog sales.

Although various manufacturers work with discounters, be prepared to find some manufacturers unwilling to participate in catalog sales, particularly if they currently sell in your area.

To get a better feel for the industry and to make personal contacts, you could visit a furniture market, where U.S. and foreign manufacturers display their furniture in elaborate showrooms. The furniture market in High Point, N.C., takes place every April and October and boasts the largest number of exhibits—about 1,300. The AFMA also can provide you with information about furniture shows.

Building Body-Shop Business

I am employed by an entrepreneur who recently opened his second auto-body repair and paint shop. Where can I get information on ways to increase customers? Our current business is predominantly from repeat customers and referrals.
I.A., La Habra, Calif.

Auto-repair services have unusual customer relationships because they must sell insurance companies on their services, says John Loftus, executive director of the Society for Collision Repair Specialists. He recommends you call on agents and persuade claims adjusters to recommend your shop to their clients.

Also take advantage of your "word-of-mouth" advertising and repeat business, Loftus says. Send a thank-you note to every customer and include two business cards. Try to reach your market—whether it's pickup-truck or Mercedes-Benz owners—with direct-mail ads and radio advertising.

For more ideas and a brochure about SCRS training programs on selling repairs, send a self-addressed business envelope with a 25-cent stamp to SCRS at P.O. Box 3765, Tustin, Calif. 92680; (714) 838-3115.

Setting Sail In Marinas

My wife and I are interested in buying a recreational marina. Could you direct us to more information, an industry trade association, or publications?
L.R., Ligonier, Pa.

Neil Ross, president of the International Marina Institute, estimates there are 10,000 marinas across the country, and single-owner marinas increasingly are giving way to chains of four or more marinas. But the industry is still young and has room for newcomers. Ross invites inquiries to his national nonprofit clearinghouse of up-to-date marina technology. For a free list of major references, trade journals, and other marina-related publications, contact him at 35 Steamboat Ave., Wickford, R.I. 02852; (401) 294-9558.

The institute also offers training seminars in marina engineering, design, and operations, and in environmental and legal requirements associated with owning a marina.

The next seminar for those interested in buying and investing in marinas will be in June in Stamford, Conn. Ross' organization can give you dates, costs, and other details.

Selling Secondhand Clothes

Can you refer me to a company that buys good secondhand clothing? Our city rescue mission receives donations of clothing. Recently a store donated $12,000 worth of brand-new clothes. We have several Seconds for Less stores that do well, but we still have surplus inventory.
F.M., New Castle, Pa.

The market for used clothing is growing, says Trudy Miller, president of the National Association of Resale and Thrift Shops. Many women today, for instance, are proud of being smart shoppers and will seek out bargains, she says. However, finding a shop outside your apparently saturated market may be difficult.

Miller says that operations like yours typically donate their excess to organizations such as the Salvation Army or Goodwill Industries. A few companies will bale and ship clothes overseas for pennies a pound.

New clothing or stylish clothing in excellent condition might be purchased by resale shops outside your area. Miller suggests that you look in the Yellow Pages of nearby metropolitan areas for names of thrift stores. Miller also can give you a list of potential buyers. Contact her at NARTS, 153 Halsted Drive, Chicago Heights, Ill. 60411; (312) 756-7500. NB

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

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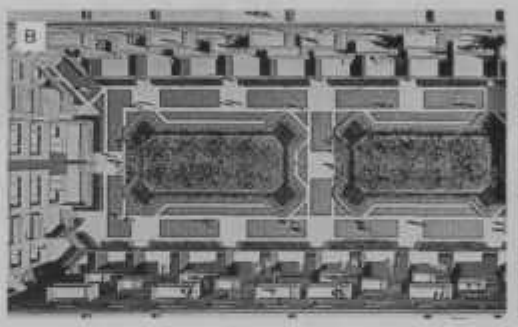
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Doubts Multiply On Section 89



By Roger Thompson

The push to repeal the complex new federal benefits law known as Section 89 now has the bipartisan backing of nearly two-thirds of the 435 members of the House of Representatives.

Rep. John J. LaFalce, D-N.Y., chairman of the House Small Business Committee and leading sponsor of the repeal measure, said in early April that 275 other members—128 Democrats and 147 Republicans—were then behind his bill.

LaFalce said he expects that total to go over 300 as uncommitted lawmakers come to understand in the near future that Section 89 is an "administrative nightmare" for employers and a money loser for the U.S. Treasury.

The law is projected to net the government about $200 million this year in taxes on excess benefits provided to highly paid employees.

But LaFalce points out that U.S. employers will spend in excess of $1 billion in fees to lawyers, accountants, and consultants to comply with the statute's complicated regulations. "That $1 billion is all a tax-deductible business expense," he notes.

As a result, he maintains that the taxes collected through compliance with Section 89 will be more than offset by compliance-related tax deductions.

Growing political opposition to Section 89 is putting pressure on House Ways and Means Committee Chairman Dan Rostenkowski, D-Ill., to accommodate the law's critics on Capitol Hill. Section 89 was part of the 1986 tax-reform package fashioned by Rostenkowski, and any bill to alter the law must originate with his tax-writing committee.

While Rostenkowski has been one of few who support the controversial law, he directed his staff in late March to develop legislation to simplify the compliance rules that have caused so many problems for employers.

Aides said the Ways and Means Committee could hold hearings on the chairman's simplification measure soon after it is introduced.

Despite the growing support for repeal, Rostenkowski's opposition remains a formidable barrier to that course. While the House rules contain a rarely used provision for forcing legislation out of committees that decline to act on it, Rostenkowski has powerful resources to oppose any such move.



PHOTO: © TERRY ASHE

Rep. John LaFalce announces major progress on Section 89 repeal. Jeffrey Joseph, a U.S. Chamber of Commerce vice president, also took part in the announcement.

He has said, for example, that if Section 89 were repealed, he would raise the issue of placing a ceiling on the amount of employee benefits that would be tax-exempt.

Backers of repeal are hoping that information presented at committee hearings on the regulatory burdens of Section 89 will persuade Rostenkowski of the merits of repeal.

Legislation to repeal Section 89 has also been introduced in the Senate by Sen. Robert Kasten Jr., R-Wis., a member of the Small Business Committee. Sen. David Pryor, D-Ark., is sponsoring a bill designed to reduce the time and expense involved in compliance with Section 89. While critics of the law applaud Pryor's effort, most say his bill doesn't go far enough to represent true simplification.

Congress enacted Section 89 in an attempt to ensure that business owners and highly paid employees don't receive unfair shares of tax-exempt benefits, primarily health and life insurance. To that end, the law creates a series of nondiscrimination tests that benefit plans must pass. When a plan does not pass the nondiscrimination test, highly paid employees covered by the plan are taxed on the so-called discriminatory portion of their benefits.

In addition, the law created a set of qualification rules that must be followed if a benefit plan is to receive tax-exempt status.

Congress hoped that the law, which took effect Jan. 1, would prod employers into expanding benefits to rank-and-file workers who now have little or no coverage. But early experience with compliance indicates that some employers instead are reducing coverage.

Ron Danilson, associate director for group underwriting for the Principal Financial Group, in Des Moines, Iowa, says his company has received more than 50 letters from small businesses that have canceled their group health plans because of Section 89's compliance difficulties. "I think this is just the tip of the iceberg," he says.

In our February cover story on Section 89, *Nation's Business* asked readers to write to us with questions about compliance. Following are some of those letters—reflecting the issues raised most frequently—and answers supplied by experts on Section 89.

Q. How does Section 89 apply to an employer who employs people covered by various union health and accident plans? Can all the employees who are covered under multiemployer union agreements be excluded from the individual employer's testing base?
George E. Merrill
President
Reliance Enterprises
Santa Rosa, Calif.

A. According to the proposed regulations, employees who receive benefits from a plan under a collectively bargained agreement ratified prior to March 1, 1986, are excludable until Jan. 1, 1991, or the expiration date of the agreement, whichever comes first.

The proposed regulations indicate an employer may elect in writing to include collectively bargained employees in the nondiscrimination testing. This election would include all collectively bargained employees and apply to all

Q.

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subsequent testing years. It would not immediately force the qualification rules on a collectively bargained plan; however, highly compensated employees within the collectively bargained unit may be subject to taxation of excess benefits.

Q. If we do not have any employees who earn at least $52,235, are we then excluded from compliance with Section 89?
Nancy Strong
Assistant to the Director
Listening Ear Crisis Center Inc.
Mount Pleasant, Mich.

A. Even if an employer does not have any employees that meet the definition of a highly compensated employee, the employer must treat at least one of its officers as a highly compensated employee for purposes of Section 89. Generally, the employer would designate the officer with the highest annual compensation.

Q. What are the IRS filing requirements for Section 89?
Holly Myers
Personnel Manager
Jan-Bell Marketing Inc.
Fort Lauderdale, Fla.

A. Any amounts required to be included in an employee's income for failure to meet either the qualification or nondiscrimination requirements must be reported by the employer on the affected employee's wage statement (for example, Form W-2). Failure to do so results in the imposition of a nondeductible tax on the employer computed at the highest individual tax rate. In addition, all includable amounts are subject to federal employment taxes, such as Social Security taxes, workers' compensation taxes, etc.

Q. What if an employee declines coverage because he cannot afford to pay his share of the health-insurance premium? Are there problems for the employer?
Jean Dorsett-Robinson
Quality of Life Services
Carbondale, Ill.

A. Nonhighly compensated employees who decline coverage will not adversely affect results of the eligibility tests since these tests focus on whether an employee is eligible for benefits and not whether he is actually covered. However, unless the employer obtains "sworn statements" (described in recently issued regulations) from those employees not covered indicating that they are receiving coverage under a plan provided by another employer (or that they declined dependent coverage because they have no dependents), they must be considered when performing either the 80 percent coverage test or the 75 percent benefits test. Thus, those employees declining coverage could cause a plan to fail either of these nondiscrimination tests.

Q. Must part-time employees be offered the same benefits as full-timers, or are their benefits prorated according to the number of hours they work?
Joan Bishop
Personnel Coordinator
Lexington Public Library
Lexington, Ky.

A. Benefits need not be offered to part-time employees who normally work less than 17½ hours per week since these employees are excluded from testing. To the extent benefits are offered to part-time employees who work between 17½ and 30 hours per week (the threshold number of hours for full-time status), the employer may proportionately reduce such benefits when performing the tests.

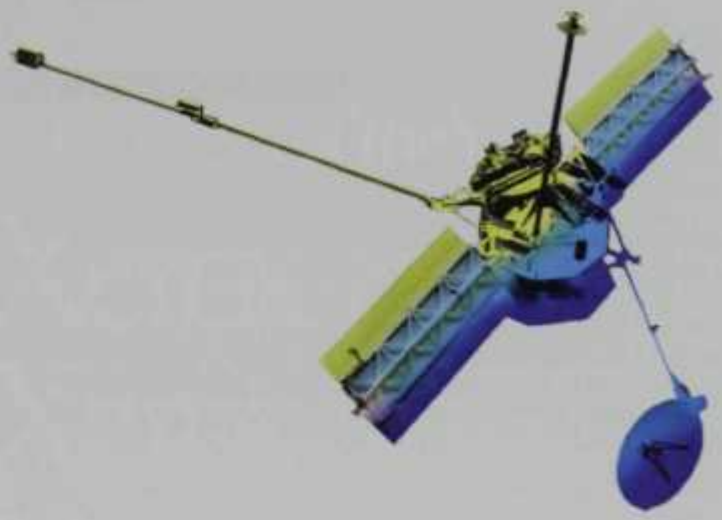
Under the so-called "proportionate reduction" rule, employees working between 17½ and 22½ hours per week who receive a benefit worth at least 50 percent of the full-time benefit may be deemed to receive the same benefit as full-time employees.

Employees working between 22½ and 30 hours per week who receive a benefit worth at least 75 percent of the full-time benefit may be deemed to receive the same benefit as full-time employees.

Q. I work for an employee-leasing company. We are considered a co-employer for the clients who contract with us. Will we have to test our company as a whole, with all of our 135 clients and 3,062 leased employees, or just each client on an individual company basis?
Pat Woods
Little Rock, Ark.

A. Both the employee-leasing company and its client companies must include the leased employees in their respective nondiscrimination tests.

The recently proposed Section 89 regulations provide very specific guidance on leased employees. A leased employee is treated as an employee by the client company. This employer can take into account benefits provided to the leased employee by the leasing company. However, in order to exclude the employee from testing, the employee



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must demonstrate receipt of other health coverage (e.g., "sworn statement").

In addition, the core health benefits received are to be 50 percent as valuable as the most valuable benefit available to any highly compensated employee of the employer.

Conversely, the leasing company could exclude an employee it had leased to a client from testing after obtaining an appropriate "sworn statement" that the client company is providing the employee with core health benefits.

Q. We stipulate that all newly hired employees receive only single health-insurance coverage, whereas all those employed before 1987 may receive coverage for dependents. Is this discrimination under Section 89?
Ruth E. Terwilliger
Secretary/Treasurer
Huntsinger's Farms Inc.
Hegins, Pa.

A. Once the number of nonhighly compensated employees without access to dependent coverage has grown large enough, the dependent coverage will surely fail the nondiscrimination tests. When the dependent coverage fails, any highly compensated employee receiving it will have to include most of the employer contribution toward this coverage in taxable income.

Q. We provide medical and dental coverage for all spouses and dependents provided that the spouse is not covered at his or her place of employment, even if he or she has to pay for these benefits. Are we in violation of Section 89 because we require the spouse to pay for benefits at his or her place of employment?
Daniel M. Kure
President
Everett Industrial Supply Inc.
Everett, Wash.

A. Your program probably will pass the Section 89 tests if you obtain appropriate "sworn statements" permitting you to disregard dependents and employees with other-employer core benefit coverage. It is well to mention a few pitfalls, though:

- The other-employer core coverage has to be "substantial." This term is not defined in the regulations, but for a spouse paying most or all of the cost at the other employer, excluding this employee might not pass muster on a close IRS audit.
- All dependents must be covered by other-employer coverage in order to exclude the employee's dependents when testing dependent coverage separately from employee coverage.
- If the percentage of nonhighly compensated employees whose spouses are required to purchase other-employer coverage is substantially higher than the corresponding percentage for highly compensated employees, then IRS might invoke the "nondiscriminatory-provisions" test [IRC 89(d)(1)(C)], which allows a plan to be declared discriminatory even though it passed the numerical tests, if the plan contains any eligibility provision that discriminates in favor of highly compensated employees.

Momentum grows in Congress to repeal Section 89, a tangled tax law that raises more questions than it answers and creates more problems than it solves.

Hotline For Section 89 Repeal

The U.S. Chamber of Commerce has established a Western Union hotline to send President Bush, House Ways and Means Committee Chairman Dan Rostenkowski, and Senate Finance Committee Chairman Lloyd Bentsen a message urging them to support repeal of Section 89.

Call the toll-free hotline number, 1-800-257-4900, and ask for operator 9485. You may send the prepared message to each of the three recipients or to any one of them. The cost is $5.75 for the first message and $5 for each additional message. The text states:

"We need your help! Section 89, a misguided law, puts health and welfare benefit plans at risk. Costly, complicated—hundreds of pages of IRS regulations won't fix it. It's bad for employees and employers. Repeal Section 89."

Q. If the owner of a corporation has his family's health insurance paid in full by the company, while the other employees have only half of their families' health insurance paid by the company, is this a violation of Section 89?
Linda Gribble
Midland, Texas

A. This situation does not, per se, violate the Section 89 plan-qualification rules. As for the Section 89 nondiscrimination tests, the situation will almost certainly result in most of the 50 percent extra employer contribution the owner receives being deemed taxable income ("discriminatory excess income").

Q. Must Section 125 (cafeteria benefit) plans meet the requirements of Section 89 in addition to the testing requirements already laid down under Section 125?
Clark B. Stowe III, C.P.A.
Squyres, Johnson, Squyres & Co.
Tyler, Texas

A. Those benefits within a cafeteria program that are normally subject to Section 89 must still meet the Section 89 testing requirements on their own. For example, if the program contains life- and health-insurance options, these must be tested for Section 89 nondiscrimination just as they would if provided outside a cafeteria program. However, failure of their respective Section 89 tests would not trigger tax disqualification of the cafeteria plan. Also, other cafeteria benefits (for example, disability income, trading of vacation days) that would not be subject to Section 89 outside a cafeteria plan remain exempt from such testing inside the cafeteria plan.

Looking at matters from the opposite direction, though, if the cafeteria plan fails its Section 125 tests, then the appropriate cafeteria-plan penalties apply to the component health- and life-insurance plans, even though these may have passed their Section 89 tests.

Answers were provided by David A. Schmidt, Martin P. Bush, and Gerald R. Shea of the Blue Cross and Blue Shield Association.

They recommend that since answers to questions on Section 89 are directly related to facts and circumstances, employers should seek guidance from their tax advisers or legal counsel on matters pertaining to qualification requirements and nondiscrimination rules.

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COVER STORY

The Age Of The *Woman* Entrepreneur

By Sharon Nelton

The business plan for S. Diane Graham's chemical-engineering company, Stratco Inc., in Kansas City, Mo., forecasts $15 million in 1990 sales and $25 million in 1992, up from $10 million this year.

By 1992, Boston exporter Patti Rubin expects to have an office in Europe, positioning her to compete in the European Community when its trade barriers go down. By that time, she also expects her company, Ortho USA Inc., to increase annual revenues from its current $3 million to $8 million. The company sells orthodontic materials and already does business in four countries.

In suburban Chicago, Sandra Pernick's company, The Direct Response Corp., has enjoyed substantial growth since she started the firm in her home seven years ago. The business-to-business telemarketing company now employs 125 people and takes in over $2 million yearly.

Nearly one-third of the small businesses in the U.S. today belong to women, and as these examples suggest, women's business ownership is coming of age.

The numbers alone are staggering. From 1980 to 1986, sole proprietorships owned by women rose from 2.5 million to 4.1 million—a 62.5 percent jump during a period when the number of male-owned businesses increased 33.4 percent. Also during that period, women-owned businesses' receipts nearly doubled, from $36 billion to $71.5 billion. Add the 433,000 sole proprietorships that are jointly owned by husbands and wives and the yet-unknown numbers of women-owned partnerships and corporations, and the figures on women-owned companies would be even higher.

Many women's businesses are beginning to mature, and their owners, having gained experience, are becoming more sophisticated managers.

Diane Graham of Stratco is one of them. Her company's basic business is providing equipment and technology to refineries making high-octane gasoline. She had no intention of joining the firm while her father was running it as majority owner, but she took over after his death because, she recalls, she wanted to keep alive his vision for the company. It wasn't entirely smooth. At one point, she had to buy out nonfamily shareholders and two brothers in order to avoid being ousted as chief executive officer.



PHOTO: © CHUCK KNEYSE—BLACK STAR

Back at work in the executive suite, Diane Graham, president of Stratco Inc., in Kansas City, Mo., cuddles her 5-day-old daughter, Cassie Robertson. Despite the demands of running her $10-million-a-year chemical-engineering firm, Graham brings the baby, her fourth child, to the office for ample mothering in the first few months of life.

Graham has nurtured Stratco from $1 million in annual revenues when she started running it in 1981 to its current $10 million and the expectations of continued fast but controlled growth.

Her strategy included a diversification program to reduce dependency on the oil industry, and Stratco has been using its equipment to serve the food, cosmetics, and pharmaceutical industries. Half of the company's staff mem-

The number of sole proprietorships owned by women has increased by more than 60 percent in this decade.



PHOTO: T. MICHAEL KEZA

Judith Sweeney, founder of Special Clothes in Alexandria, Va., knows handicapped children need custom-designed garments, and she enjoys providing them.

bers, including engineers, are women. "We stick out in the oil industry," says Graham, 35. "It definitely helps us be remembered." But she's quick to point out that being remembered is not enough; it's the performance of the company that counts.

Stratco's impressive expansion could be a model for many other women-owned businesses, particularly those that are now 5 to 10 years old. These companies "are really poised for growth," says Carol M. Crockett, director of the Office of Women's Business Ownership at the U.S. Small Business Administration. "We're going to see some of those become major players in the marketplace in the next decade."

Many of those major players will emerge from businesses now being formed. Women's business ownership is "obviously the fastest-growing segment of entrepreneurship," says Fran Jabara, director of the Center for Entrepreneurship at Wichita State University, in Wichita, Kan. "The thing I'm seeing is that the level of enthusiasm is seemingly accelerating."

In 1972, women owned less than 5 percent of American businesses. The rapid increase to ownership of 30 percent of the country's sole proprietorships by 1986, the last year for which figures are available, has prompted some predictions that by the turn of the century, women will own 50 percent of the small businesses in America.

"If this growth continues at the same rate," SBA's Carol Crockett said last year, "it is anticipated that women will comprise half of all self-employed people by the year 2000." And in "New Economic Realities: The Rise of Women Entrepreneurs," a report of the Committee on Small Business of the U.S.

COVER STORY

The Age Of The Woman Entrepreneur

Telemarketing entrepreneur Sandra Pernick started The Direct Response Corp. at home seven years ago. Now she has two offices in suburban Chicago, 125 employees, and more than $2 million in annual sales—and banks are eager to lend money to her.



PHOTO: © RICHARD DERK

House of Representatives, Rep. John J. LaFalce, committee chairman, stated that women "could well own and operate 50 percent of the nation's businesses by the year 2000."

"That wouldn't surprise me," says Peggy Leonard, president of the National Association of Women Business Owners (NAWBO). She cites the trend toward "coordinating work life with family life" as one of the factors that spur women to start their own companies.

Bruce D. Phillips, chief of the Data Base Branch of the SBA's Office of Advocacy, expects women to own closer to 40 percent of the country's small businesses by 2000. While women's business ownership as a share of the total is expected to continue to rise, he believes the unusually high rate of growth of the 1970s and early 1980s will slow down somewhat. Women's business ownership, he suggests, will follow the pattern of women's participation in the labor force, where increases have already begun to slow down.

Another expert who doubts that women's share of business ownership will equal men's by the end of the century is David S. Evans, vice president of National Economic Research Associates Inc., in White Plains, N.Y. He points out that in the figures on sole proprietorships, which originate with the Internal Revenue Service, no distinction is made between part-time and full-time businesses.

"Women tend to operate a lot of small, part-time businesses," he says. An analysis of census data by Evans and others shows that full-time businesses formed by men continue to outnumber those formed by women.

But in another measure of success—revenues of sole proprietorships—firms owned by women have held steadier than those owned by men. In terms of constant 1982 dollars, the 1980s have seen a general decline in the receipts of sole proprietorships, but those for the average female-owned enterprise dropped 9 percent against a 30 percent decrease for male-owned firms.

There is evidence of respectable growth among women-owned partnerships and corporations, which tend to bring in more dollars than sole proprietorships. For five years, *Savvy Woman* magazine has published a list of America's top women business owners, called "The Savvy Sixty." In its report on businesses in 1987, published in November 1988, the magazine said that the cutoff point for companies to make the first list, in 1984, was $5 million in annual sales; in 1988, the cutoff point had risen to $24 million. Total revenues of the 60 companies on the 1984 list had risen from less than $6.5 billion to nearly $10 billion.

Furthermore, 21 companies on the fifth-anniversary list had annual revenues of more than $100 million in 1987, and three—Estée Lauder, the Washington Post Co., and Liz Claiborne Inc.—had sales of over $1 billion. The 60 companies had nearly 68,000 employees.

According to Peggy Leonard, surveys conducted by NAWBO indicate that average annual revenues of members rise by about $100,000 every two years. The last survey, in 1988, also showed that members who owned corporations fared substantially better, with an average of $1,318,000 in annual revenues, compared with an average of $829,000 for all the respondents' businesses.

As their businesses mature, women find it easier to obtain the credit they need for expansion, observes the SBA's Bruce Phillips. (See article on Page 28.) He also says the surge of women entering the work force that began nearly three decades ago is beginning to influence trends in women's business ownership. Women now bring experience that they gained working for someone else to working for themselves, and that experience increases their chances for success as entrepreneurs.

While about 80 percent of women's businesses are concentrated in retailing and services, there are signs that those concentrations are changing. Phillips says women increasingly have been starting businesses in industries where they rarely owned businesses before, such as transportation, construction, and manufacturing. Such businesses are more likely to be full-time enterprises and tend to have larger receipts than retail or service businesses. The number of women-owned sole proprietorships in the transportation industry, for example, rose from 27,696 in 1980 to 62,088 in 1985, an increase of 124 percent, compared with a 35 percent increase in businesses in the industry as a whole.

"Except in finance, women-owned

businesses are expanding into all industrial sectors more rapidly than those owned by their male counterparts," according to a 1988 SBA report, "Small Business in the American Economy."

As their numbers grow in all kinds of businesses, women are making their presence felt in the mainstream of the business community. So many women are now the chief executives or elected leaders of local chambers of commerce that it is an "everyday thing," says Billy P. Mitchell, manager of the Office of Chamber of Commerce Relations at the U.S. Chamber of Commerce.

NAWBO's Peggy Leonard says she has been noticing a greater number of women appointed to private-industry councils and other business institutions.

Women entrepreneurs also are assuming leadership in their trade organizations, including those in male-dominated fields. Shirley McVay Wiseman, owner of several businesses in Lexington, Ky., this year became the first woman president of the 157,000-member National Association of Home Builders. Jean Hails, owner of the $20-million-a-year Hails Construction Co. in Roswell, Ga., was the 1986 president of the 18,000-member Associated Builders and Contractors. And Sandra Pernick this year is the first woman president of the 5-year-old American Telemarketing Association.

In spite of the rapid growth of women business owners, it's still tough to be one, just as it is tough to be a male entrepreneur. Although she had a great idea for a business and has won substantial publicity in *People* magazine, *USA Today*, and a half-dozen other national publications, Judith Sweeney has yet to make her big breakthrough. Three years ago, she started Special Clothes, an Alexandria, Va., company that manufactures garments for handicapped children. Sold by direct mail, the garments feature special openings for children on feeding tubes, Velcro fasteners for easy dressing, and special designs for youngsters in wheelchairs or children without muscle control.

Sweeney, 41, has 1,200 active customers, but sales reached just under $40,000 last year, she says. "I'm making just barely enough to live on." About $43,000 of a $50,000 loan from her father, who gave her a five-year time limit, must be repaid next year.

Though she knows her products are needed, her market is small. "And the fact is, I'm selling to people who have no money because they have overwhelming medical expenses," she says. It's also difficult to find suppliers willing to sell and contractors willing to produce the small quantities she needs.

A study for the SBA showed that precisely the same percentage of women as men—80.5 percent—start their businesses from scratch; the remainder buy their businesses, inherit them, or receive them as gifts. Regardless of their route to business ownership, women's motives for going into business vary widely.

For some, being the owner offers the opportunity for flexibility to combine their ambitions with their desire for an active family life. Debra J. Fields, the founder of Mrs. Fields Cookies, has four daughters, all under 10. Diane Graham gave birth to her fourth child on March 4 and returned to her Stratco office five days later, taking the baby with her. Graham says it has been her custom to bring her newborn children to the office and to take them on business trips for at least the first four or five months of their lives.

Some women turn to entrepreneurship because they are frustrated with corporate life or feel they have hit the "glass ceiling"—the level beyond which they no longer expect promotions.

Debra Benditz discovered the glass ceiling in her own father's business, a pipe-distribution company in Houston.

Benditz worked for her father for five years, moving from secretary to sales representative. When she began pushing for more responsibility, she was told that if anyone would be promoted to management in the company, it would be her four younger brothers.

"I became very disenchanted with what I was doing," says Benditz, 31. With $5,000 in savings, she left her father's firm five years ago and started her own pipe-distribution company, L-Leighty Tubular Products. While 1988 sales were just $1 million, in some years she has done as much as $2 million.

Israeli-born Talia Y. Carner, the for-

Continued on Page 30

For More Information

If you are a woman planning to start or expand a business, here are some sources of help and information for you:

- Office of Women's Business Ownership, U.S. Small Business Administration, 1441 L Street, N.W., Room 414, Washington, D.C. 20416; (202) 653-4000. SBA expects to launch a series of regional conferences in the fall on access to credit. A current program called "Meet the Lenders," available through district SBA offices, offers information about obtaining credit and enables women to meet local lenders.
- National Association of Women Business Owners, 600 S. Federal St., Suite 400, Chicago, Ill. 60605; (312) 922-0465. NAWBO, which has 37 chapters, has worked for the passage of legislation to help women entrepreneurs. In February it launched a leadership institute to help women develop management skills. NAWBO's annual convention, June 21-24 in Chicago, is open to the public. Speakers will include actress and business owner Polly Bergen, and Frances Lear, founder of *Lear's* magazine.
- National Federation of Business and Professional Women's Clubs Inc., 2012 Massachusetts Ave., N.W., Washington, D.C. 20036; (202) 293-1100. The organization has 120,000 members in nearly 3,500 chapters. Activities include lobbying and sponsoring scholarships for women over 25. Its annual conference will be held July 23-27 in Detroit. Open to nonmembers, the conference will include programs on entrepreneurship.
- American Woman's Economic Development Corp., 60 E. 42nd St., Suite 405, New York, N.Y. 10165; (212) 692-9100. AWED offers programs on starting and managing businesses. Counseling by telephone is available for a small fee by calling (800) 222-AWED. In New York State, call (800) 442-AWED; in New York City, Alaska, and Hawaii, call (212) 692-9100.
- National Women's Economic Alliance Foundation, 1440 New York Ave., N.W., Washington, D.C. 20005; (202) 638-1200 (Ask for Patricia S. Harrison). The organization offers advanced management programs for women who have been in business at least five years, and it identifies qualified women to serve on corporate boards.



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Banking On Women Owners

Credit is as available to women business owners as it is to men, claims Joyce Indingaro, senior vice president of Florida National Bank in Miami. Women are more heavily concentrated in service businesses, where it's hard for either sex to get loans.



PHOTO: © BRIAN SMITH

Women business owners are finding it a little easier to get loans at the bank these days.

Entrepreneurial women have complained frequently in the past of being denied access to credit because of their sex. While it is still tough to obtain financing, interviews with women business owners suggest that their experiences in getting bank loans now closely parallel those of their male counterparts.

Whether you are a man or a woman, when you're a start-up entrepreneur, banks often won't have anything to do with you.

You use your savings, take out a home-equity loan, or borrow from your friends and your grandmother. Then, when it looks like your business is going to succeed, the banks become interested.

"Being a woman business owner is more acceptable to the financial institutions of this area than it has been before," says Sandra Pernick, founder of The Direct Response Corp., a telemarketing company in suburban Chicago, and president of the American Telemarketing Association.

Pernick recalls trying to get a $30,000 line of credit when her company was 2 years old.

"My receivables more than justified that," she says, but the bank would give her only a $12,000 line.

After two more years, however, she got a credit line of more than $75,000 at another bank. "In fact, the bank calls me and asks me if I want more money," says Pernick.

While women seem more realistic than they had been in their expectations concerning credit—and less inclined to blame a credit-application rejection on sex—there's still some room for doubt.

When Debra Benditz of Houston was seeking financing for her pipe-distribution company, L-Leighty Tubular Products, one bank told her it would lend her the money she was asking for "if I wanted to open up a flower shop or go into the bakery business. I have zero experience with either of those." She doesn't know if she was turned down because of the shakiness of oil-related businesses in Houston or "if it was because I am a woman in the energy business."

But Judith Sweeney of Special Clothes in Alexandria, Va., who also was turned down for a loan, says she knows it was because she had no collateral.

Joyce Indingaro, senior vice president of Florida National Bank in Miami, says credit is "as available to women business owners as it is to male business owners in today's world."

However, women's businesses are heavily concentrated in services, where it's harder to get loans. Service companies, Indingaro points out, generally do not have inventory, significant accounts receivable, equipment, or a plant to serve as collateral.

A new federal law, the Women's Business Ownership Act of 1988, includes a provision to make available to service businesses "miniloans" of up to $50,000 guaranteed by the Small Business Administration.

While these loans are not limited to women, they would be of particular benefit to women because many of them own service firms.

The law also amends the Equal Credit Opportunity Act of 1974 to eliminate the exemption for commercial loans. Banks no longer are permitted to ask the marital status of loan applicants. They must also inform applicants that they have the right to obtain written explanations of the reasons for denial of credit.

"I really do not believe that women are discriminated against in [obtaining] capital," says Fran Jabara, director of the Center for Entrepreneurship at Wichita State University, in Wichita, Kan. Sometimes, however, a woman may not seem fully committed to her business because it is secondary to her family, and, says Jabara, "that causes credit grantors to get nervous."

And sometimes, Jabara adds, women are "not well enough acquainted" with the financial side of their business. He encourages them to get a grip on it so that they have confidence when they make their presentations to lenders. "If they go in with a lack of confidence, the credit grantor has lack of confidence," he says, adding that the same is true for men seeking loans.

When she was looking for credit for her start-up exporting company, Boston entrepreneur Patti Rubin says, "They threw me out of all the banks I went to."

But it wasn't because she was a woman, she explains. It was because she was just getting started, and her foreign receivables were not backed by letters of credit.

She saved enough of her profits to buy an apartment and finally obtained credit against the equity. Founded in 1976, Rubin's company, Ortho USA Inc., does $3 million in sales annually. But in the early years, Rubin deliberately stayed small, worked at home, lived conservatively, and reinvested in her own business.

"No one," she says, "is going to invest in you if you don't invest in yourself."

"What my little company needs is the kind of computer only a big company can afford."



COVER STORY

The Age Of The Woman Entrepreneur

Talia Carner's idea for marketing to businesswomen through their professional journals led her to found a company that is expected to bill $750,000 this year.

Continued from Page 25

mer publisher of *Savvy* magazine, now *Savvy Woman*, became disgruntled with corporate life. She also had concluded that for reaching professional women with advertising, major women's business magazines were not as effective as women's professional journals. Last year, Carner launched a slick advertising insert for magazines such as *Press Woman*, *Woman Engineer*, and *Executive Female*, and she lined up more than a dozen major advertisers. Her company, The Business Women Leadership Media Inc., billed $400,000 in 1988 and expects to bill $750,000 this year.

Women are driven by a variety of other motives as well.

Ortho USA's Patti Rubin says she started her exporting company "to have an international life and to do something unusual." She had been a secretary in a Boston dental school and had discovered the market for her products by observing the many foreign dentists who attended the school for continuing-education courses.

"I saw that they were shopping for dental materials every time they were here," she says. Often, the shopping was more important to them than the courses they were taking. By asking them questions, Rubin learned that many of the materials they wanted were more expensive in Europe or just not available. She got her start in Italy.

"I went to Berlitz, and I took a crash course—like 10 days of total immersion in Italian," she recalls. "Then I went to Italy, and I forced myself to talk to anybody and everyone who would talk to me. I sat in restaurants and cafes at night, just talking to whoever worked there, trying to pick up the language." Her perseverance paid off. She now has 4,000 customers in Italy and an estimated 35 percent of the Italian market.

Such commitment is among the characteristics that have been identified as common to women business owners. A 1985 study of 468 women entrepreneurs by Robert D. Hisrich of the University of Tulsa and Candida G. Brush of Boston University showed them to be especially energetic, independent, and goal-oriented. They also scored high on competitiveness, self-confidence, perfectionism, and flexibility.

In *Exceptional Entrepreneurial Women* (Praeger, 1988), Russel R. Taylor, director of the H.T. Taylor Institute for Entrepreneurial Studies at the College of New Rochelle, in New Rochelle, N.Y., profiles 15 women business owners. Each was chosen because she is well known in her industry, started or acquired her business with her own resources, and has an enterprise exceeding $10 million in annual sales. Included in Taylor's selections are Estée Lauder, mail-order entrepreneur Lillian Vernon Katz, stock broker Muriel Siebert, and advertising executive Lois Wyse.



PHOTO: WAYNE SORCE

Among the characteristics Taylor notes in his subjects are the ability to make things happen, self-confidence, and a drive for autonomy. Like Hisrich and Brush, he also found a high level of energy. "Each without exception is an early riser, is usually in her office before anyone else, and seems to enjoy exceptionally good health," he says. "Not one appears to be overweight, and most report they indulge in a regular program of exercise."

Taylor also says women entrepreneurs are courageous. He writes: "When Lane Nemeth of Discovery Toys suffered a sizable loss in 1983 and had to contemplate liquidating a $10-million business she had built in six years, she mustered the tremendous courage to carry on, correct her mistakes, eat a lot of crow, and bring the enterprise back to profitability." Nemeth's educational-toy company, based in Martinez, Calif., now does more than $60 million in annual sales.

Despite the successes and the zest of women entrepreneurs, Karl Vesper, professor of business administration at the University of Washington, suggests that we won't see the kind of expansion of women-owned firms that we do with those owned by men. Most women start small service companies that are unlikely to outlive their founders, he says. "If something happens to the lady with the flower shop in the strip mall, I think the flower shop is going to go away."

Vesper adds that in his view, "Sandra Kurtzig is a wild exception." Kurtzig is the founder of ASK Computer Systems Inc., which is expected to reach $200 million in sales this year. Though she resigned as chairwoman in February to pursue other investment and business activities, her company is certain to go on without her.

Such expansion is still rare among women-owned companies, however. Observers note that women so far have shown less inclination than men to employ others. In 1982, for example, only 10 percent of the women-owned sole proprietorships had paid employees.

Nonetheless, the outlook is optimistic for women who choose the entrepreneurial life. Sole proprietorship is often seen as a stepping-stone to ownership of larger, more aggressive businesses, and no one knows yet how many women are "graduating" from sole proprietorships to partnerships and corporations. "I think women are realizing now how good they are. They realize they can compete," says Fran Jabara of Wichita State, where women make up 46 percent of the enrollment in entrepreneurship courses.

While the growth in numbers of women-owned firms may be reaching a plateau, the women are not likely to turn back. Having won her victory in the fight for control of Stratco, Diane Graham says that exercising full control is "wonderful." Now she has the freedom to do what she wants to do with the company. Before, she says, "it was always the board or the shareholders or brothers or somebody saying, 'Oh, no, that's too risky.'"

And even struggling entrepreneurs such as Judith Sweeney of Special Clothes are not about to call it quits. Says she: "As long as I'm making enough to live on, this is the most satisfying thing I've done." NB

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COMMENTARY

The President's Council On Competitiveness

By Warren T. Brookes

One of the least noticed but potentially most important items in President Bush's Feb. 9 address on budget priorities was his plan to "establish a council on competitiveness, chaired by the vice president."

The real purpose of this new competitiveness council, according to White House staff members who developed this concept, is to generate "competitiveness impact statements" on a range of proposals—especially in the area of mandated benefits—that could increase costs for U.S. businesses.

Ideally, every major legislative and regulatory initiative would be reviewed by professional economists and accounting analysts to determine its real costs in lost jobs, additional import penetration, or lost export potential.

Vice President Quayle is just the right person to lead this potentially pathfinding effort. In 1987, with the aid of Robert Guttman, who then was minority counsel on the Senate Labor Subcommittee and now is the vice president's chief of staff, Quayle cosponsored a proposal—Senate Resolution 218—to require "economic impact evaluations" on all mandatory benefits programs.

That bill was killed when, at the quiet urging of Democratic leaders, both the General Accounting Office and the Congressional Budget Office resisted developing such evaluations.

But Quayle persisted and finally got the Senate on July 14, 1987, to agree unanimously to a "sense of the Senate resolution" as Amendment No. 497 to the Omnibus Trade Bill. The amendment called for "each Senate committee that reports legislation mandating employers to provide new employee benefits to secure objective analysis of the costs and benefits of the legislation to employees, employers, and international competitiveness and shall include an analysis of these effects in the report of the committee."

In other words, find out how much these "compassionate" ideas are going to cost us in the global economic race before we pass them into law.

Sadly, this resolution disappeared when Senate and House conferees took up the 1988 trade bill, but not before Quayle obtained the voting support of Sen. Edward Kennedy, D-Mass., labor's point man on the Hill.

Unfortunately, the absence of this mechanism either in Congress or at the White House undercut Quayle's 1988 senatorial effort to kill last year's plant-closing legislation, whose true costs will be felt in a recession.

Similar legislation in Europe has cost tens of billions of dollars and hundreds of thousands of lost or ungenerated jobs. Yet last summer, proponents made it seem cost-free when its actual economic costs to employers are probably at least $12 billion a year because it more than doubles the effective layoff costs for the average worker.

Ideally, every major legislative and regulatory initiative would be reviewed by professional economists and accounting analysts to determine its real costs in lost jobs, additional import penetration, or lost export potential.



Warren T. Brookes is a nationally syndicated columnist on economic issues.

But without an adequate early warning competitiveness-evaluation system, one of the most dangerously anticompetitive forms of labor legislation quietly became law without a whimper.

The same thing could now be happening as Congress and organized labor have already gained a big head start on the Bush administration with simultaneous drives to raise the minimum wage to $4.65 an hour, and to mandate parental leave for all businesses. These two provisions alone would add at least $20 billion a year to business costs.

Waiting in the wings are two other mandated-benefits issues—child care and health insurance—that could increase business costs annually by an additional $40 billion to $100 billion or more.

Unfortunately, the Bush administration has only begun to crank up its competitiveness counteroffensive. Vice President Quayle recently told this columnist that "we have to get up to speed soon." Indeed so, if the administration is to put real price tags on all of these bills in terms of lost employment and lost output.

For example, then-President Reagan's Council of Economic Advisers estimated in 1988 that raising the minimum wage would increase the federal budget by $2 billion to $6 billion a year. Nonetheless, Labor Secretary Elizabeth Dole this year sent to Congress a proposal to boost the minimum wage to $4.25, with a provision for a training wage at the current level of $3.35 for a worker's first six months.

While there might be some advantages to such a compromise, Congress has largely ignored it, and even Secretary Dole has admitted it would cost jobs and business. Had she had the benefit of a real analysis by the competitiveness council, she easily could have shown that a much better way to increase the net income of lower-paid workers—without risking jobs or competitiveness—would be to expand the Earned Income Tax Credit (EITC).

Indeed, an even more expanded EITC could easily deal with the problems of minimum wage, child care, and welfare reform through a "family living wage," as proposed by House Republicans in March, and the cost would be far lower.

These are just some of the issues that this new council can and should address. Business's only hope in this new administration is for congressional liberals to be regularly and formally forced to face up to what mandated benefits have cost the economies of Europe, where huge increases in social spending and fringe benefits have been matched by slow GNP (gross national product) growth and soaring unemployment levels.

If Bush is to stem the same tide here, he will have to be supported by the enterprise community to meet the cries of "compassion" with the sweet reasonableness of "competitiveness." NB

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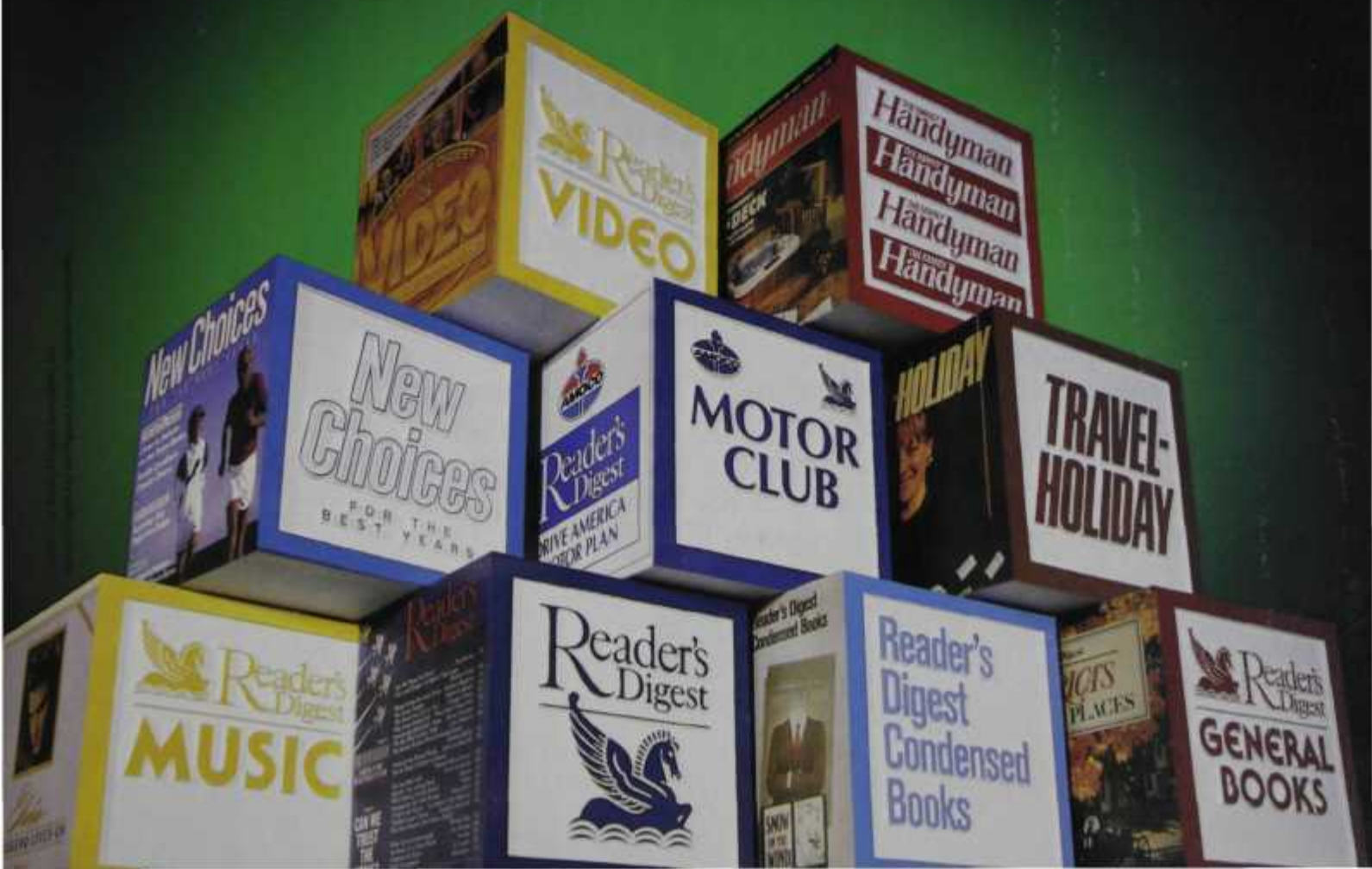
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THE NATION'S BUSINESS

Trading Views With Japan

U.S. perceptions of Japan's trade policies sparked controversy in a "Nation's Business" videoconference.

By Albert G. Holzinger

Participants in Tokyo at a videoconference on Japan-U.S. trade, produced by the U.S. Chamber of Commerce, were, from left, L. DeSaix Anderson, chargé d'affaires of the U.S. embassy; moderator Carl Grant, Chamber group vice president for communications; Richard L. Lesher, president of the Chamber; Eishiro Saito, chairman of the Keidanren; Takuji Matsuzawa, counselor for Fuji Bank; Toshikuni Yahiro, chairman of Mitsui and Co. Ltd.; and Akio Morita, chairman and chief executive officer of Sony Corp.



PHOTOS: MILT MITLER







The average American believes that if Japan were trading by the rules, far more U.S. manufactured goods and farm products would be sold there. But most Americans are convinced that Japan is not trading by the rules, and they want their country to retaliate.

Those were findings of recent U.S. public-opinion polls cited by a panel of American business leaders in a recent intercontinental videoconference, "A *Nation's Business* Special: Dialogue on Japan-U.S. Trade." These grass-roots U.S. attitudes should be of grave concern to the Japanese business community, the Americans said.

Members of the panel of Japanese business leaders said that such surveys fail to recognize continuing progress by Japan in opening markets, the degree of protectionism practiced by the U.S., and the trade problems U.S. exporters cause for themselves by not learning more about the needs of Japan's markets.

The Americans emphasized that the U.S. public's perceptions of Japanese trade policies were as important now as the policies themselves. "The overwhelming majority of the people of the U.S. think the trading practices of Japan are unfair," said Edward Donley, chairman of the executive committee of Air Products and Chemicals Inc., of Allentown, Pa. He warned that "if that continues as the perception, Congress and the [Bush] administration will respond, and the American market will become less open" to Japanese products.

The U.S. and Japanese economies are "inextricably tied" in many areas of world commerce and technological development, and trade in these areas helps both nations "immeasurably," said William S. Kanaga, chairman of the advisory board of Arthur Young, a leading international accounting firm, and chairman of the board of the U.S. Chamber of Commerce.

Like Donley, Kanaga warned that unless Japan can improve the perception of its trade practices held by people on the streets of America, import restrictions are likely to surface soon.

Japanese participants in the videoconference vigorously denied that their markets are substantially more closed than America's.

"In the U.S., you have 14 agricultural products and beef restricted for imports," said Toshikuni Yahiro, chairman of Mitsui and Co. Ltd. He added that the U.S. also imposes "considerable restrictions" on imports of machine tools, semiconductors, textiles, and other manufactured products.

Japan has "steadily improved" efforts to open its markets, Yahiro contended. "Since last year, we have liberalized imports of beef and citrus products. We've also reduced tariffs on as many as 206 items."

Akio Morita, chairman and chief ex-

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Trading Views With Japan

In Washington were moderator Meryl Comer, a Chamber vice president; James K. Baker, chairman and chief executive officer of Arvin Industries Inc.; Edward Donley, chairman of the executive committee of Air Products and Chemicals Inc.; and William S. Kanaga, chairman of the advisory board of Arthur Young and chairman of the U.S. Chamber.



PHOTO: T. MICHAEL KEZA

ecutive officer of Sony Corp., pointed out that "Europeans are selling cars in Japan, but Americans are not." Japan's trade practices are not unfair, Morita said; Americans simply "need to learn more about our markets."

The polls on U.S.-Japan trade cited prominently in the televised dialogue included one commissioned by the Times Mirror Co., a communications conglomerate based in Los Angeles.

About 70 percent of the grass-roots Americans surveyed believe that Japan is much less fair in its trading practices than Canada and the nations of Europe, and most said they favor restrictions on Japanese imports and investments here.

Another poll cited was conducted by Chilton Research for the *Washington Post* and ABC News. Two of three respondents said they believe that "unfair trade barriers . . . give Japanese companies advantages that American companies don't have." An equally large majority said the U.S. should restrict Japanese imports.

U.S. members of the panel made it clear that they hoped the eventual effect of polls such as these would be the easing of Japanese trade barriers, not U. S. retaliation.

The American Business Network (BizNet), the broadcasting arm of the U.S. Chamber, which also publishes *Nation's Business* magazine, provided the forum for the exchange of views. It was BizNet's sixth annual dialogue between Japanese and American business and government representatives. The videoconference was sponsored exclusively by Federal Express.

The event was moderated by the co-anchors of "Nation's Business Today," the live, two-hour business-news program produced by BizNet weekday mornings for the ESPN cable-television network.

Meryl Comer, Chamber vice president for communications development, led the portion of the discussions that originated in the BizNet studio in Washington. The participants there were Donley; Kanaga; James K. Baker, chairman and chief executive officer of Arvin Industries Inc.; and Nobutoshi Akao, minister of economics of the embassy of Japan.

Carl Grant, the Chamber's group vice president for communications, moderated the Japanese portion of the videoconference, in the Okura Hotel in Tokyo. The participants in Japan were Yahiro; Morita; Takuji Matsuzawa, counselor for Fuji Bank; L. DeSaix Anderson, chargé d'affaires of the U.S. embassy; Richard L. Lesher, president of the Chamber; and Eishiro Saito, chairman of the Keidanren, a federation of economic organizations that is the Chamber's counterpart in Japan.

American participants predicted that the clamor here for restrictions on imports and investments would abate if the U.S. trade deficit with Japan were to decline. "I think it is clear that what the American people really don't like is [the U.S.] trade deficit," said Baker. "And I think it is up to you in Japan to [reduce] it. It is in your self-interest."

Last year's Japanese trade surplus with the U.S. was $55 billion, compared with the record $59.8 billion surplus a year earlier. The decline continued into early 1989.

Much of this improvement, analysts say, is attributable to devaluation of the dollar, which makes American goods cheaper in Japan and Japanese products more expensive in the U.S.

American and Japanese participants disagreed over whether a further decline of the dollar would bring their countries' exports and imports closer to balance. But they were unanimous that the economies of both nations would be harmed if their governments were to adopt a practice called "managed trade." Under this concept, proposed now by some in Washington, governments negotiate either an overall trade balance or trade balances in specific industrial sectors.

"Managed trade does not work in [free-market systems]," said Akao, "and even if it did, it would lead to reduced trade and standards of living." Anderson agreed: "Managed trade is merely camouflage for protectionism."

Participants also agreed that frank debates among Japanese and American business people, like the exchange in the videoconference, are constructive alternatives to government-imposed solutions. Said Lesher: "Business communications and discussions can lead to better understanding and ultimately solutions to [economic] problems, to the betterment of both nations." NB

Go With The Flow

When Bob Baker and Jim Watson started putting high tech into transportation, they put Skyway into high gear.

By Michael Barrier



PHOTO: © LINDA SUE SCOTT

Baker, left, and Watson have built their California-based air and truck freight company by letting manufacturers know where vital shipments are, every step of the way.

James F. Watson recalls the day, more than 10 years ago, when he was sitting across from a cigar-smoking man whose desk was stacked high with papers.

The man, a purchasing manager for a Los Angeles clothing manufacturer, was trying to track down a shipment of fabric that his company needed desperately. "He's calling the vendor, he's calling the mill, he's calling the carrier," Watson remembers. "He's on the phone for 45 minutes while I'm sitting there, and he cannot find a thing. Everybody's lying to him."

Watson was there drumming up business for Skyway Freight Systems, a then-tiny air-freight company he had started in 1977 with Robert Baker. He started thinking: What if "somehow we could close that loop, so that if he called me, I could tell him everything that's going on?" What if Skyway—in addition to selling transportation—could sell information? What if Skyway could always tell its customers where a shipment was, and what was in it, and when it could be expected at its destination?

Their answers to those questions have put Watson and Baker in the vanguard of change in the transportation industry.

The two men had met when they were hired to help save an air-freight company in Chapter 11 bankruptcy proceedings. Watson, a native of Syracuse, N.Y., and a graduate of the U.S. Naval Academy, had been a salesman for International Business Machines Corp. Baker, a native Oklahoman, had started working for an air-freight company while he attended New York University, and he had worked for several other transportation companies after that.

When the bankrupt company was restored to health, Baker and Watson decided to go into the air-freight business themselves. "At that time," Baker explains, "the airlines were putting a lot of new lift into the marketplace, via the new wide-body aircraft. Air freight had traditionally been an overnight business; that's all they sold. We saw an opportunity to go to the airlines and say, 'You have all this daytime lift, which cannot service an overnight need, but which could service a two- and three-day need. If we can go out and convince the customer that in two days he can get freight from California to New York, and pay half of what he pays for overnight, that should sell.'"

With capital of only $80,000, Baker and Watson set up offices in four cities and braced for a flood of customers.

The expected flood turned out to be a trickle. Too many of their potential customers were addicted to overnight service. "We've done some surveys at receiving docks," Watson says, "and it's astounding how much next-day air freight sits in receiving for four or five days before anybody uses it."

After only a few months in business, Skyway Freight Systems was down to one office—a shed at a Los Angeles junkyard—and two employees, Bob Baker and Jim Watson. Baker staffed the office during the day while Watson went out selling. Both of them worked late into the night handling freight.

So it was that Watson wound up listening to that purchasing manager frantically trying to find some missing fabric, and so it was that he started thinking about what it might mean if Skyway could always know the whereabouts of such shipments.

"Putting 2 and 2 together," Watson says, "I realized that if we had an 800 number, all these mills could call us [when they made a shipment]. We'd be the holders of all the information. That would make us valuable."

The mills were instructed to call Skyway's 800 number whenever they loaded a truck with a shipment for a Skyway customer. Truthfulness was no longer an issue, Watson says: "You can't lie to the guy driving the truck. Either it's on the truck or it's not on the truck." The drivers would call Skyway, too, so any discrepancies between what was shipped and what was supposed to be shipped were caught immediately. Soon, Watson says, the mills learned that if they were shipping to a Skyway customer, "you've got to ship what you say you're going to ship."

In those days, Skyway hired other companies to pick up such shipments; now, its own fleet of about 100 trucks makes most of its pickups and deliveries. And a lot more has changed.

Baker, 44, who is Skyway's chief executive officer, and Watson, 41, its president, now supervise 400 employees

Go With The Flow

Baker and Watson, examining the cab of a truck, run a company whose mission is to show businesses how to make the most effective, economical use of transportation services.



PHOTO: © LINDA SUE SCOTT

at more than a dozen locations across the country. The revenues in the privately held company have been rising by about one-third every year. In 1988 they hit $32 million. Early last year, Union Pacific Corp. bought a 30 percent nonvoting interest in Skyway, giving each company access to the technological advances the other is making. Skyway now is based in Watsonville, a few miles from Monterey Bay, in a part of northern California heretofore better known for artichokes and brussels sprouts than for the kind of high-tech operation Skyway has become.

Skyway was low-tech at first; Watson and Baker used clipboards to keep track of shipments until 1979, because they couldn't afford a computer. Now, though, Skyway is heavily computerized; all of its freight terminals and major customers are tied together in a network called Skynet. A Skyway customer no longer has to dial an 800 number to learn where a shipment is; that information now can be called up on a personal computer.

"We now have freight terminals all around the country that are hooked up on-line for [Skynet]," Watson says. "So every time they load a truck and offload a truck, the database gets updated, real-time. Our cross-country trucks all have cellular phones. The drivers must call in every so many hours and report their position, report the weather, report their estimated time of arrival at the next checkpoint. We factor that ETA back into the customer system, so we can predict when a part number will arrive at a customer's plant." And if a customer decides a shipment is needed sooner or later than previously stated, the service can be upgraded or downgraded—switched from truck to air, say—while the shipment is en route.

Even though Skyway started using its own trucks in 1984, it still has no planes of its own. Competition in the air-freight industry enables Skyway to buy cargo space for much less than what it would pay if it owned planes.

Beyond that, operating its own fleet of planes would go against Skyway's self-proclaimed mission to demonstrate to business how to make the most effective and economical use of transportation services.

Because it is selling information as well as transportation, Skyway prefers to do much more than simply bid for a contract, Watson says: "We tend to create business plans for customers," showing them how logistical changes can have far-reaching positive effects. Skyway, he says, was talking about reducing inventories and adopting the "just-in-time" approach to manufacturing long before those ideas were widely known: "We got a lot of blank stares. We are blazing some real trails here, and in some cases the market may not be ready for us. Maybe 15 or 20 percent of American manufacturers even understand what we're talking about. The good news is, a few years ago that was 1 or 2 percent."

At first, the company specialized in garment-industry accounts, since, Watson says, "they were the first folks we found that had a real need for inventory control." But Baker and Watson soon learned that clothing manufacturers made up a volatile lot. "When you opened the mail," Watson says, "you got five checks and four bankruptcies." Baker and Watson picked up their first high-tech account after learning that a semiconductor manufacturer in Phoenix was about to drop its transportation provider.

That manufacturer, Baker says, "saw this as an opportunity to reduce not so much transportation costs as other operating costs. They weren't just looking at transportation dollars; they were looking at a complete system. That's when we really understood the value of a partnership with a customer."

Skyway soon landed accounts with other high-tech companies, and now it serves many of the leaders in Silicon Valley. In an increasingly sophisticated manner, it is working with those companies to send raw materials sliding in, and finished goods sliding out, so efficiently that the manufacturers can sharply reduce the fixed costs of warehousing inventory but without raising the risk of lost production time.

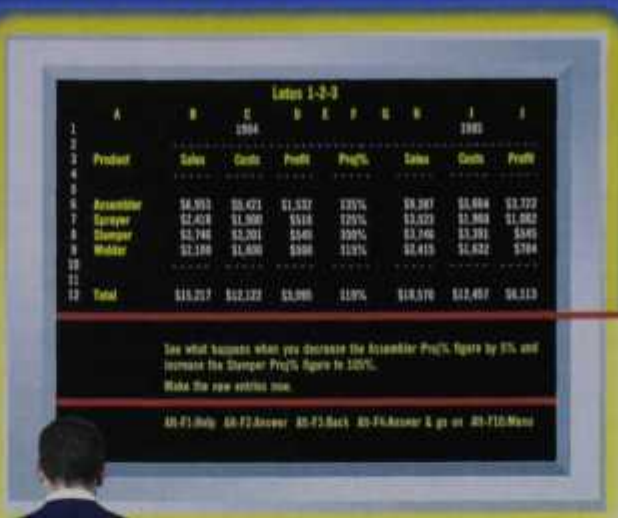
Skyway's communications network is the critical ingredient. Says Bob Baker: "One of the ways to keep inventories low is to use transportation as a warehouse—a warehouse on wheels. But you can only do that if you have reliable, up-to-date information that gives visibility to this moving warehouse. We have some programs in place now where we literally are the receiving function for the manufacturer. We're on-line with them, and they're drawing down from this active inventory flow that's coming in through our terminal."

There is a glimpse, in what Baker and Watson say, of some ultimate in logistical efficiency, beyond what is suggested by "just in time" and other buzzwords. They summon up a future in which raw materials move into a factory, through it, and out of it as finished products, so smoothly that warehouses become anachronisms, because everything is always in purposeful, economical movement.

Such perfection may be unattainable, but Skyway makes it seem a lot closer than it used to be. Says Bob Baker: "If you said 'logistics' four years ago, everyone thought it had something to do with the Army. Today, people understand that it is a whole business process that involves almost every aspect of a manufacturer's work." NB

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SPECIAL REPORT

The Leased Advantages

Faced with rising costs of buying and running company cars and trucks, many firms have turned to leasing.

By Julie Candler

Car and truck transportation typically is as necessary for operating a business as food is for sustaining a family. And just as a family can reduce food costs through tactics such as bulk buying, a business can take advantage of various cost-saving options in meeting its transportation needs. These options include leasing cars and trucks, using new truckload haulers, and creating combinations of both owned and rented vehicles. Moreover, the lease options extend to foreign makes, particularly those manufactured in the U.S.

The need for reducing transportation costs has never been greater. The average price of a new car in 1988 was $14,000. From 1972 to 1988, the cost of owning and running a typical U.S. car soared 220 percent. Over a period of five years, the cost of owning and operating a heavy-duty truck will likely be approximately three times its typical $80,000 purchase price. For cars as well as trucks, costs are rising for insurance, licenses, taxes, fees, interest, maintenance, repairs, and fuel.

Bob Williamson halves the delivery costs of his Ex-Cell pressure washers by signing on the dotted line and letting the J. B. Hunt Transport Service do the rest.

PHOTO: ©STEVE JENNINGS—PICTURE GROUP



For automobiles, depreciation costs are accelerating faster than all other costs. Since 1986, depreciation and interest have consumed more than half of every automotive dollar, according to Runzheimer International, a Rochester, Wis., firm that tracks transportation costs.

Used-car values began plunging when automakers used low interest rates and other incentives to persuade buyers to choose new instead of used cars. A $10,000 four-door Chevrolet Celebrity—the most popular fleet vehicle today—purchased in March 1986 brought only a $5,000 trade-in price in March 1989, according to the National Automobile Dealers Association's *Official Used Car Guide*.

Leasing Gains Popularity

Today's most popular method of cutting transportation costs is leasing. The American Automotive Leasing Association predicts that by 1990, one-fourth of all new vehicles sold in the U.S. will be purchased for leasing.

"I see leasing as the only way to pay for something that loses its value as quickly as you can pay it off," says Cedric A. Rashad. He promotes leasing at Nalley Acura in Marietta, Ga.

Ironically, one of the reasons for the increased rate of depreciation is the growing use of leasing, according to Clyde Hillwig, publisher of the *Automotive Market Report*, a publication that sets values on used cars for the wholesale trade. "More high-mileage cars are being produced," he says, "because leasing is getting bigger and bigger. The market simply hasn't been able to absorb them."

Simplex Time Recorder Co. of Gardner, Mass., has a fleet of 1,500 leased vehicles. "In the long run, it costs less" to lease than to own, says Jerry Albertini, manager of corporate services for Simplex. "Owning can be heavily labor-intensive. Title retention, vehicle disposal, and general administrative duties require considerable time and personnel. By leasing, now we are provided with monthly reports on our fleet from the leasing company. They break down the cost per mile, total mileage, personal use, and so forth according to our specifications."

Simplex, which manufactures time-

Utility Player.

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SPECIAL REPORT

The Leased Advantages

Leasing rather than owning its 500 vehicles helped Seibels, Bruce and Co. increase the dollar amount of its assets, says Charles Bruce, vice president of the insurance firm.



PHOTO: TERRY ASHE

recording devices as well as fire, safety, security, and energy-management systems, leases about 1,000 passenger cars and 500 minivans from Wheels Inc., of Des Plaines, Ill. The lease agreement allows either party to terminate in writing with an advance notice. Rates and terms are renegotiated every year. Periodically, says Albertini, "We put the whole fleet out to bid to insure that Simplex's fleet program remains at the forefront of leasing practices and technologies. If the numbers and services provided are close, then it's a matter of which lessor you have the most confidence in."

Patsy Brownson manages a fleet of 2,000 cars and trucks used nationwide by the broadcast and cable operations of Cox Enterprises, an Atlanta-based newspaper, television, and communications corporation. She uses Automotive Rentals Inc., a nationwide leasing company based in Maple Shade, N.J., and Wheels Inc.

Relying on only one company "might be simpler," she admits, "but I prefer to have two so we can get the best use of both." Like other fleet managers, Brownson has found that two leasing companies' strengths can complement each other.

One lease firm, for example, may provide more helpful details and reports, or it may take more of the titling and other paperwork off a lessee's hands. Some lessors' representatives offer better advice than others on outfitting trucks to meet specific needs. One firm may pick up new vehicles from the dealer, check them over, and deliver them personally. Another firm may leave such tasks to you.

In addition, some leasing companies have stronger financial backing than others. "We are part of the Bank of New England, and that allows us to be more aggressive in marketing and pricing," says Paul Allmacher, vice president of marketing at McCullagh Leasing Inc., in Roseville, Mich.

Leasing helped Seibels, Bruce and Co. increase the dollar amount of its assets. The Columbia, S.C., firm writes property and casualty insurance. Charles Bruce, vice president for administration, says: "State insurance regulations require us to have so many dollars of surplus assets for every dollar of premium business we write. The surplus can include assets such as buildings, furniture, any tangible asset that can be sold—except automobiles. The state insurance department discounts the automobiles because of their high rate of depreciation. So about three years ago we sold our $3 million fleet of about 500 cars and light trucks used by us and subsidiary companies, mostly on the East Coast.

"We leased the vehicles back. It costs us about 1.5 percent per year more than it cost us to own them. So basically, we raised $3 million in capital for 1.5 percent."

While improved cash flow and savings in labor can make leasing advantageous, most lessees agree that its biggest benefit comes at income-tax time. Certified public accountant Rickey Faermark of the Southfield, Mich., firm of Parker, Wittus and Co. figured the tax bills on a $15,000 passenger car owned for three years and a car of the same value on a three-year lease.

Her comparison factored in the "inclusion amount" that business users who lease vehicles costing more than $12,800 must add to gross income and the limitation on depreciation for vehicles purchased at that price or higher. (A vehicle that costs more than $12,800 is labeled a luxury car by the Internal Revenue Service.)

For the $15,000 car purchased at an interest rate of 11.5 percent with $3,000 down, payments would be $395 per month. The tax deduction, including depreciation and interest, for the vehicle would be $3,757 in the first year. For a leased vehicle figured at the same interest rate, monthly payments would be $407, and the tax deduction would be $4,853. Each year thereafter, the leased vehicle would continue to generate greater deductions than the one purchased outright. However, Faermark points out, if you have a loss on resale of the purchased car, you can obtain a tax benefit as a result.

In many cases, lease obligations don't appear as a major liability on a firm's balance sheet, as does an installment purchase. Usually, long-term leases are mentioned only in the notes of a financial statement.

Leasing eliminates the need to keep the three different sets of depreciation schedules some companies must maintain on vehicles they own. One schedule is for the company books, and another is for tax depreciation. A third, using the alternative minimum tax (AMT) formula, may be required by the IRS.

Leasing can have drawbacks, however. The total amount paid under a lease will usually exceed the total paid under a purchase arrangement. With an open-end lease, which most businesses prefer, the lessee takes a risk. For example, if the lease agreement sets a residual value for the vehicle at replacement time as $7,000, and if resale brings only $5,500, the lessee must make up the difference.

The lessor usually is responsible for the car's resale when the contract ends. But many fleet managers sell the used vehicles to their drivers or spouses, netting a little more than the wholesale price that the lessor could get.

You take no risk at the termination of a closed-end lease. You return the car and pay no additional charges, but it will cost you a higher monthly fee, and your lease agreement will limit

President Kathy Laliberte has Beckman Produce use its own leased trucks, and the company trains drivers in loading fragile fruit and vegetables, to avoid damage.



PHOTO: © MITCH KEZAR—BLACK STAR

your annual mileage. If you drive more than 15,000 to 30,000 miles—whatever the agreement states—you will be expected to pay for each extra mile.

It pays to shop around and compare the deals offered on both purchase and lease arrangements. Seek your accountant's advice on the correct strategy for your company.

At some auto and truck dealerships, salespeople may not suggest leasing as an alternative because they usually make more money on retail sales. Dealers themselves are sometimes reluctant to suggest a lease. They believe their profits are greater from retail sales, although many experts disagree.

Check with small independent leasing companies, which may be able to order through a dealer's fleet department at less than invoice. You may save by dealing with one of the larger leasing companies, such as GE Capital Fleet Services, in Eden Prairie, Minn.; Peterson, Howell & Heather, in Hunt Valley, Md.; McCullagh Leasing, in Roseville, Mich., or Wheels Inc., in Des Plaines, Ill.

Until recently, says David Lefever, executive director of the National Association of Fleet Administrators, only small companies tended to go after small-fleet business. But in the intensely competitive industry, he says, "There's no doubt that the big companies will have separate salespeople out looking for that small-fleet business."

Consider Leasing Imports

In responding to a survey by the National Association of Fleet Administrators, many fleet managers said they are considering switching from U.S. automakers' domestically produced cars to Japanese "transplants" made in the U.S. "Some of the larger fleets are experimenting with imports," says Lefever. "In the past, some of the major leasing companies wouldn't handle those cars. Shipments were slow, and you couldn't get them. Now the makers are starting to offer fleet pricing and to make their presence felt at our meetings."

Some Japanese makers for the first time are promoting their vehicles to fleets. They emphasize their cars' reputation as trouble-free. Nissan is offering its Stanza, Sentra, and Maxima to fleets. Toyota is advertising its Kentucky-made Camry. While Honda isn't actively seeking fleet business, some companies are adding Accords, Civics, and even high-priced Acuras.

Patsy Brownson, fleet manager at Cox Enterprises, counts 10 Accords among the company's 2,000 leased vehicles. There are no plans for a major switch on the light-truck side, however. Like many other fleet managers, she feels that "the American-made trucks are proven to do the job in the way we want it to be done."

Ed Bobit, executive director of the Automotive Fleet and Leasing Association, sees a slow but solid growth in fleets' use of imports.

Whether you choose an American car or an import, equip it the way it would be most desirable as a used car, says publisher Clyde Hillwig. "If you take a group of 30 fleet cars to an auction and a few have extra equipment [power windows and power locks, for example] those will sell right away and for more money than the others."

And, when feasible, replace passenger cars with minivans such as the Dodge Caravan, Ford Aerostar, or GMC Safari. Consumers are demanding them in place of cars, station wagons, and larger vans, which makes their resale value higher.

Cycle Vehicles Frequently

"If I were a fleet manager," says Hillwig, "I'd try to determine what would have happened if I had cycled my cars [sooner], when they were still really desirable, maybe after 40,000 miles or so. You'd get better resale, even though you'd be spending more for the equipment initially because you'd be replacing it more often."

Jerry Albertini of Simplex says: "The marketplace tells me my car is worth that much less when it has over 60,000 miles. Although each vehicle is on a 50-month lease, we replace our vehicles on average every 24 months, with between 50,000 and 60,000 miles, in order to minimize the vehicle holding cost involved."

Some fleet managers place the magic number for top resale value at 48,000 miles for a 2-year-old car.

Technology Spurs Truck Leasing

One of the fastest-growing segments of leasing is in commercial trucks. Companies are finding it economical to lease trucks of all sizes—from minivans to midsized vehicles such as Iveco diesels to the "Baby 8" line produced by Mack Trucks and to other heavyweights from companies such as WhiteGMC and Navistar.

Leasing is becoming more attractive with the growing complexity of truck technology and the growing scarcity of good mechanics. Besides tax and other advantages, most truck lessees get special services from their lessors.

Steve Eglar, account manager in PacLease's Pittsburgh facilities, describes how truck lessors can make life for their customers easy. "Running a truck is getting complicated," he says. "Federal fines for missing permits are getting tougher." Companies such as PacLease, which provides the Class 8 Kenworth and Peterbilt products of PACCAR Inc., of Seattle, take these worries off an operator's shoulders. They oversee licensing, maintenance, and obtaining operating permits.

"We keep track of the drivers," says Eglar, "make sure they aren't running

with an expired license. We test them. The Department of Transportation will ask for a driver's file. If you don't have it, you are liable for a substantial fine. We have everything on file. We also include road service, license plates, and breakdown repairs. If they have to rebuild an engine, we supply the replacement vehicle while the truck is down."

One of Eglar's customers is Charlene Totterdale, operations manager for Northeast Productions, of Pittsburgh. She is so satisfied that she plans to add two more heavy-duty tractors to the two Kenworth 100Es that NEP now leases. The firm pays $438 per week per tractor on a three-year lease, with an option to buy.

The vehicles haul vans loaded with $3 million to $4 million worth of audio and video equipment, TV-control-room gear, and remote-production facilities.

Called "super shooters," these mobile television-production units are used in televising sports and other special events. For NEP, a breakdown could be crucial.

"PacLease keeps the trucks in good working order," says Totterdale. "It eliminates time-consuming regulatory work and frees me to do my real job. I feel more secure with the leased vehicles. PacLease said they would help if we had a breakdown with one of our owned vehicles. It happened in California. We called the local PacLease dealer, and they sent a replacement right away."

The 18 Peterbilt trucks and tractors leased by Beckman Produce in St. Paul, Minn., refrigerate and deliver fruit and vegetables to restaurants in Minnesota, North Dakota, and Wisconsin. Beckman prefers using its own fleet instead of outside carriers because drivers must be specially trained in how to load food to avoid spoilage and freeze damage.

Beckman President Kathy Laliberte and traffic manager Steve Goodson are pleased with the arrangement.

Their Peterbilt dealer has "manned the maintenance shop on our premises," says Laliberte. "It's working out well. And when heavy snow intake disabled a truck, they came through right away with a substitute."

Own A Few, Rent A Few

A combination of owning and renting works well for a seasonal business such as Roseland Nursery Inc., of Acushnet, Mass. Owner Fred Reuter delivers 200,000 potted roses every April and May to garden centers, most of which are within 100 miles of his company.

For general purposes, he owns a Ford Econoline E-350 van and an 18,000-pound gross vehicle weight Iveco truck with a 140-horsepower engine. For his rose deliveries, he contracts with the nearest offices of Ryder System's Vehicle Leasing and Services Division to rent nine 35,000-pound GVW trucks with 24-foot boxes.

The rental trucks arrive when the first of the crop is potted and ready for shipment, about April 1. They go back to Ryder when the last rose is delivered by the end of May.

Each rental truck costs Reuter about $300 a week plus 10 cents per mile. He estimates the cost of his average delivery at about 30 cents per rose. "We would be crazy to own these trucks," he says. "It works out well for Ryder, too, because my demand comes during a season when their volume is lower."

Bob Williamson cut his shipping costs in half by using one of the companies that specialize in full-truckload hauling. He says the business has grown five times in the three years since he took over Ex-Cell Manufacturing Co., of Decatur, Ark. Ex-Cell used to deliver its pressure washers with a 20-foot flatbed truck that could handle 18 to 20 machines. "It cost us an average of $600 to $700 to deliver $20,000 worth of product to Alabama," Williamson explains.

Eighteen months ago Williamson found that he could load 40 machines, invoiced at up to $45,000, onto one of the 48-foot Class 8 trucks operated by J. B. Hunt Transport Service Inc., of Lowell, Ark. "I could ship twice as many dollars' worth to Alabama for $750, little more than it cost my own truck to deliver 20," he says. "I figure it cost $35 per machine to deliver with our truck, and $16.77 per machine with J. B. Hunt delivery—and I pay the cost of the freight, not the customer.

"When I call J. B. Hunt for a trailer, they deliver to my customer faster than I could. They usually put on a team of drivers who can spell each other. Everything has gone up dramatically—including the cost of cargo insurance. When you use J. B. Hunt, they pay the insurance."

The economical rates are based on the J. B. Hunt truck's ability to pick up a return load after making Ex-Cell's delivery. Without that, says Williamson, it's cheaper for him to ship with his new 30-foot flatbed Class 8 Ford truck.

J. B. Hunt is among a number of efficient, nationwide, full-truckload haulers with computerized operations. "We don't guarantee that we will deliver on time," says Paul Bergrant, executive secretary of J. B. Hunt. "But if we don't, we lose the business. The measure is the loss of business. We grew at a rate of about 37 percent last year."

Whether you buy, lease, rent, or use an outside carrier, check regularly to be sure your system is paying off. Patsy Brownson of Cox Enterprises says: "Just because I lease this year doesn't mean I will next year. You have to reevaluate and keep on top of it because things change." NB

For More Information

A popular two-volume reference work covers all the legal, accounting, and tax aspects of leasing any type of equipment. *Equipment Leasing-Leveraged Leasing* contains 2,000 pages on acquiring equipment ranging from computers to airplanes, cars, and trucks. Written for business people and accountants as well as for lawyers, it covers product-liability, tax, economic, and accounting issues and leasing documentation. Most of the material was written by Ian Shrank of the Philadelphia law firm of Morgan, Lewis & Bockius.

A full chapter is devoted to "Leveraged Leasing," through which a third party lends the money to a lessor of expensive equipment such as a fleet of trucks or million-dollar airplanes. The lessee makes payments directly to the third-party lender. At the end of the lease, the lessor gets the trucks or planes back.

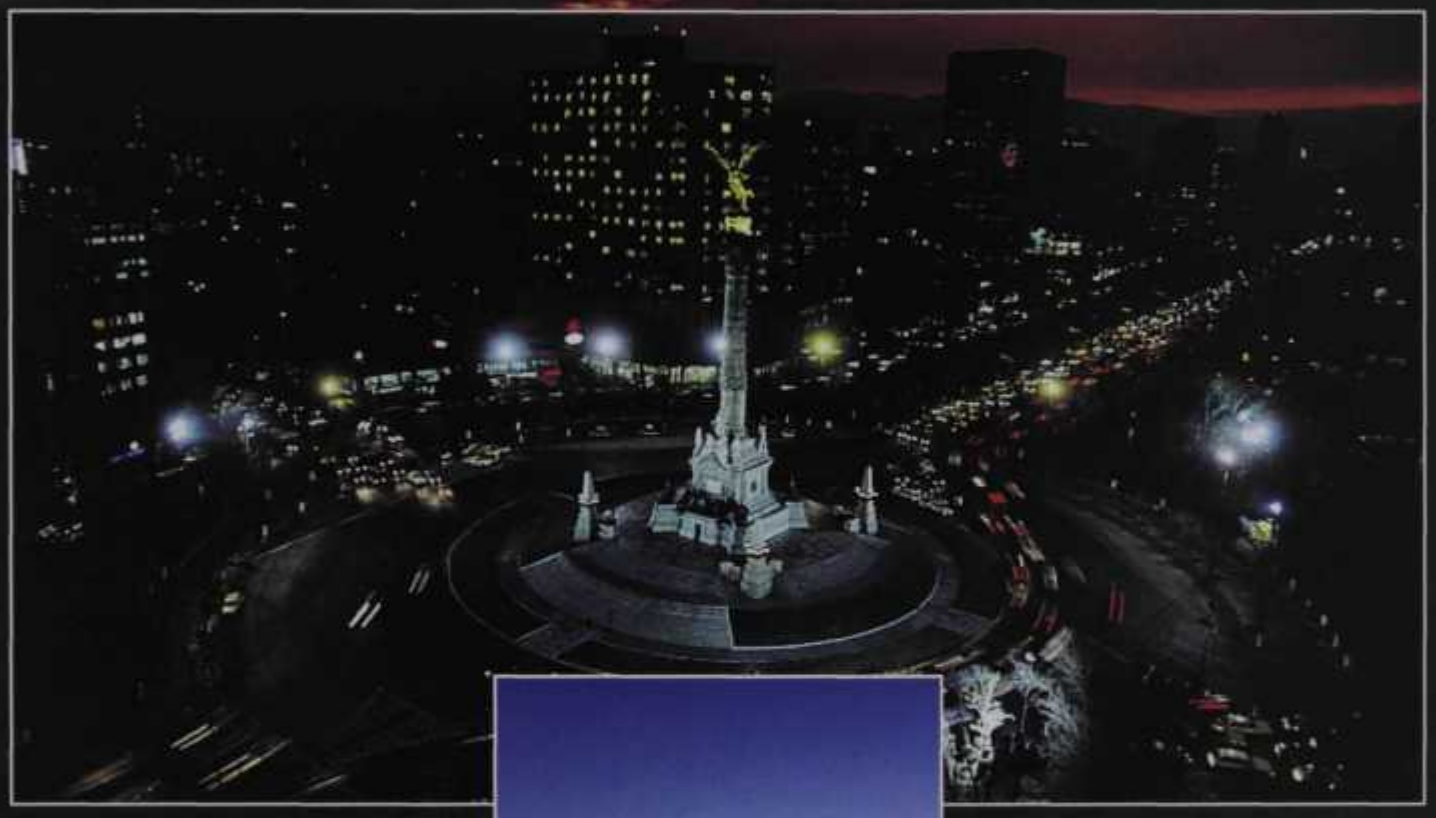
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SPECIAL ADVERTISING SECTION



Mexico





By Mike Zellner

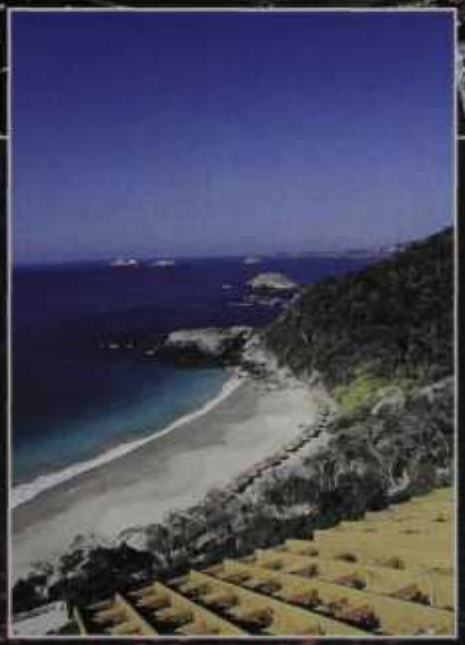
Why do executives in Mexico constantly remark about growing international competition? After all, everybody knows that Mexico has been a closed economy since the 1940s, right? Wrong.

Since Mexico's entrance into the General Agreement on Tariffs and Trade in 1986, the almost half-century-old walls protecting the world's 13th-largest economy have been dynamited. Import permits and other nontariff barriers practically have been cleared away. What remains is a maximum import tariff rate of 20 percent, making Mexico the most open economy in Latin America.

Mexico's total imports during 1988 exceeded $15 billion, over 30 percent more than in 1987. This remarkable increase in imports was due to the significant reduction of import tariffs in mid-December 1987 and, to a lesser extent, the frozen exchange rate starting in March 1988.

Under Mexico's anti-inflation program, known as the Economic Solidarity Pact, in late 1987 the government abruptly opened the door to imports, forcing local producers to maintain reasonable prices and to start becoming more competitive interna-

Mike Zellner is a former staff writer and editor for the American Chamber of Commerce of Mexico and now is a consultant to that organization.



By night or by day, the peaceful seaside resort at Punta Ixtapa on the Pacific coast contrasts sharply with the bustle of traffic at the Plaza de la Revolución in Mexico City.

PHOTOS: IXTAPA SUNSET, © MICHAEL S. YAMASHITA—WOODFIN CAMP; PLAZA DE REVOLUCION, MEXICO CITY, © STEPHANIE MAZE—WOODFIN CAMP; IXTAPA COASTLINE © DAVE G. HOUSER—UNIPHOTO

M E X I C O

The inflation that preceded government adoption of a trade-opening strategy helped fuel spectacular growth in Mexico's stock exchange, in Mexico City.



PHOTO: © DAGMAR FABRICIUS—UNIPHOTO

tionally. The market-oriented strategy was necessary in order to control inflation, which was raging at an annual rate of 160 percent at the end of 1987.

For almost two years before the trade opening, companies had been raising their prices in expectation of a shock plan. Because the shock plan failed to materialize, these pricing policies led to what economists call inertial inflation. Profit margins ballooned and helped feed spectacular growth in Mexico's stock exchange.

When the trade opening began to take hold, however, many companies, including multinationals, had to re-evaluate their pricing policies. These companies found that prices for their products were above international levels, making them noncompetitive in the local market. After years of protection in the guise of import substitution, the government, with the stroke of a pen, effectively introduced a new concept to local businessmen: competition.

"Everybody thought the trade opening came too fast, but it has been successful," said Raul Muñoz, president of Du Pont in Mexico. "Small and midsized businesses predicted that Mexican industry was going to be annihilated. On a large-scale basis, it has not happened. That says that there is sufficient margin for maneuvering within the government's trade policy," he adds.

Arturo Garcia, head of economic analysis under the Trade Secretariat, pointed out: "The great challenge of the policy is to ensure that small and medium-sized companies are able to adapt effectively to the process of structural change. This requires time, and it is possible that some companies will close down."

The monthly trade balance slipped into the red in September 1988, mainly because import growth overwhelmed export growth. From February to July, monthly imports grew twice as fast as non-oil exports, while oil prices plummeted.

Despite the growing trade deficit, the

Continued on Page 44E

Mexican Economy's Bold Initiatives

By Rodman C. Rockefeller

We are witness to an historic redirecting of the Mexican economy toward global trade and international competitiveness. Since the United States is the world's largest market and Mexico's top trading partner, Mexico's leaders are directing their economy closer to the U.S.

Mexican and U.S. business leaders have a major stake in the success of this opening.

No two countries in the world are more vital to each other's future prosperity and security than Mexico and the United States. The mutual progress of our two great nations is underscored by our extensive and complex trade, investment, and financial relations.

Mexico—after joining the GATT and signing a bilateral Commercial Framework Agreement on Trade and Investment with the U.S.—has made unprecedented unilateral strides on the trade front. Trade between our two countries has greatly benefited from the lowering of tariff and quota restrictions by Mexico last year. U.S. exports to Mexico are up an estimated 40 percent, and Mexico's exports to the United States are up 25 percent. Of particular importance is the fact that 90 percent of the increased U.S. exports to Mexico reportedly are capital goods, indicating that the Mexican private sector is starting to invest again.

On the foreign-investment front, there are many laws regulating the percentage of ownership in various investment fields, in addition to the basic foreign investment and intellectual property laws. Updating and liberalizing them will be one of the major challenges for the administration of President Carlos Salinas de Gortari and the private sector during the next two years.

Since such a large part of nontraditional exports are from U.S. affiliated companies selling to the U.S. market, success in the opening of investment channels will determine the continued success of the growth of trade. This in turn will be instrumental in determining the success in re-establishing growth in the economy.

Investment liberalization will become increasingly intertwined with the trade-liberalization issue, and now is the time to establish negotiating priorities, and to restart bilateral commercial negotiations. Moreover, the early decisions and actions of the Bush administration—begun with the Brady Plan last March—will have a profound impact on the ability of the Salinas administration to sustain Mexico's shift toward liberal economic orientation. Simply reducing debt-service outflow, however, will not solve the dilemma of stagnated growth. The emphasis must be to facilitate flows of investment capital to restart growth.

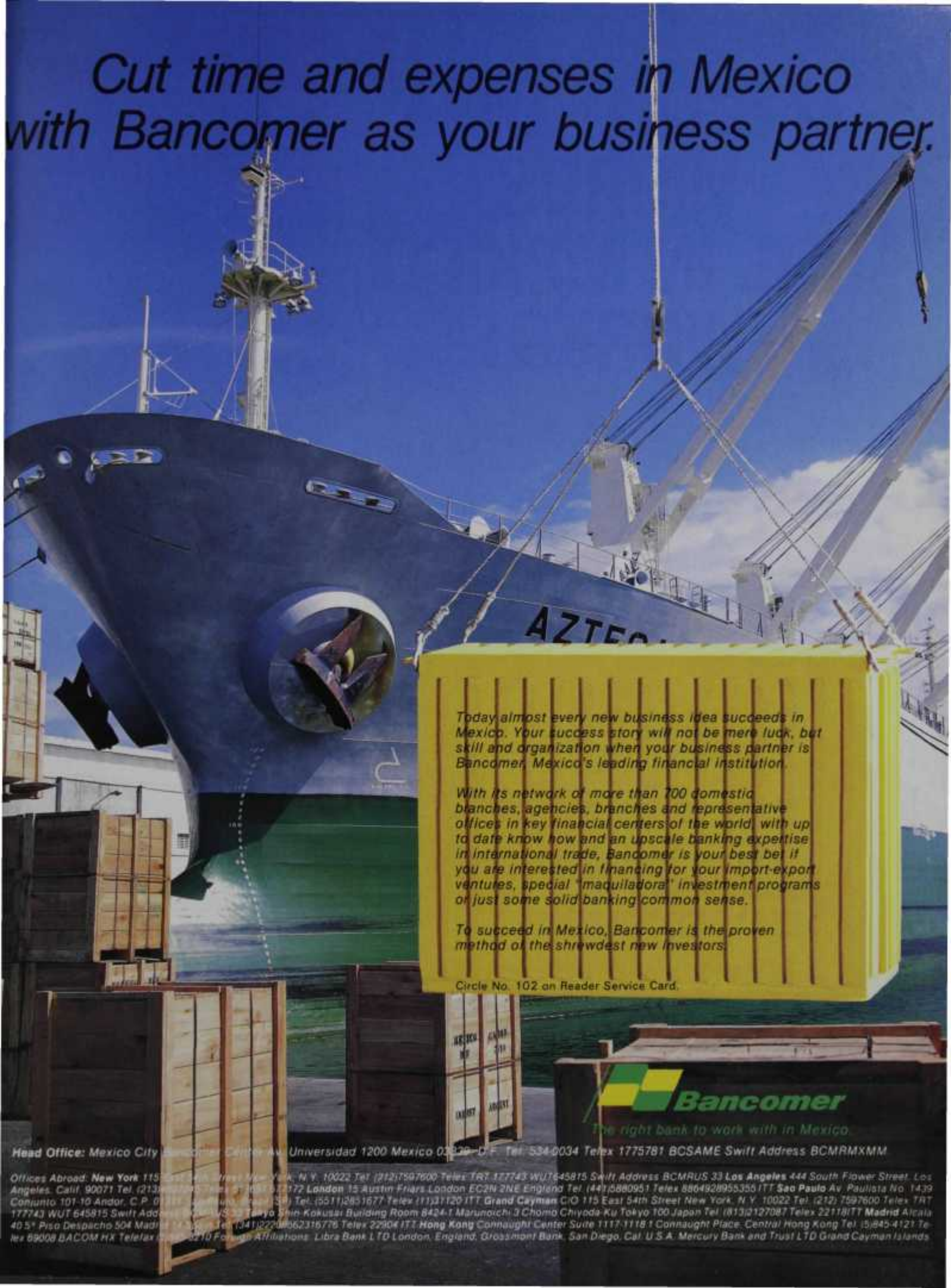
In closing, bold initiatives have been made in Mexico to redirect the development of its economy toward exports, global competitiveness, and private initiative.

To realize the benefits of her efforts thus far at restarting the economy, Mexico must have extensive flows of investment capital and access to world-class technology as well as training.

The challenge to the Mexican and U.S. private sectors is obvious.

The United States must recognize and act upon this moment of maximum opportunity. The political and business leadership of our two nations must have the vision, the foresight, and the courage to realize our two futures together as independent, prosperous, and equal nations whose futures will both benefit from increasing interdependence.

The author is chairman of the U.S. Council of the Mexico-U.S. Business Committee, the oldest binational private-sector organization between the two countries. He also is chairman of Arbor Acres Farm Inc., a diversified biotechnology concern.


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MEXICO



Industrias Resistol: World Competitor

By Benito Bucay



Benito Bucay

Industrias Resistol S.A. and its subsidiaries form a diversified chemical concern, with sales of $400 million in 1988. Some 25 percent of this total was exported to the U.S., South America, and the Far East. With joint ventures with companies such as Monsanto and General Electric and with technology agreements with more than 15 companies in Japan, the U.S., and the European Community, Industrias Resistol is striving for worldwide competitiveness as the Mexican economy opens up to the world in its drive for modernization.

The company's products range from basic chemical commodities such as phenol, formaldehyde, and industrial phosphates to engineering plastics and resins, laminates, waterproofing and roofing materials, household adhesives, housewares, and food and feed colorants and additives.

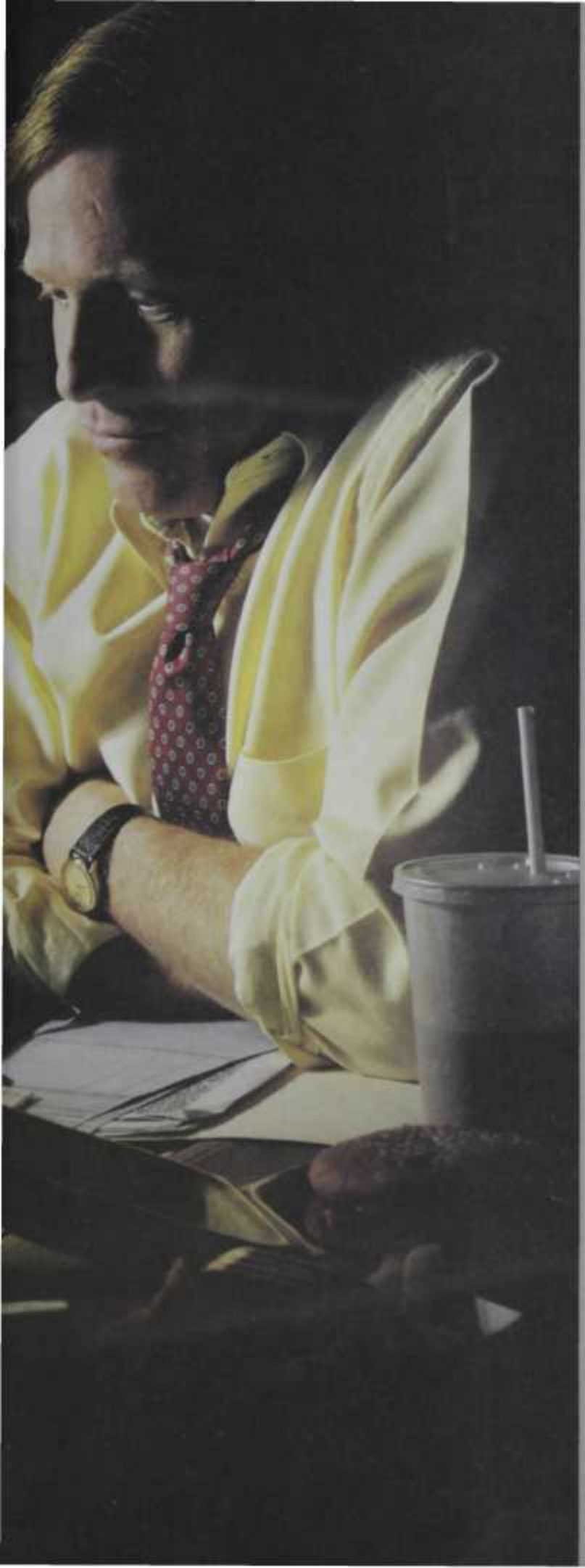
Its facilities include more than 25 plants and warehouses in Mexico and marketing and distribution centers in Houston and in Barcelona, Spain.

The drive initiated by the Mexican government in 1988 is leading to an open market and realistic pricing of government-controlled materials, which pose new demands on Mexican industry to face stepped-up competition and much tougher quality and service standards. The perceived advantages of a protected market are gone and must now be substituted by efficacy, agility, and service, with world-class customers like Ford, Procter & Gamble, or IBM demanding and receiving the quality and service they expect throughout the world.

Industrias Resistol's response has been to increase local research and development, which, although still modest by U.S. standards, has been growing twice as fast as the total business has done over the last five years.

Product-development activity is becoming more and more attractive in Mexico nowadays, as the combination of lower salaries, tax and financial incentives, innovative attitude, and an open economy that makes market-evaluation tests more economical, all combine to provide a new comparative advantage for the country.

The author is director general of Industrias Resistol S.A.



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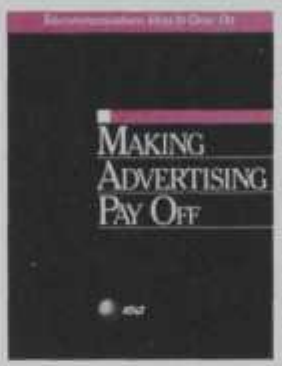
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It also defines the many media available today, from print to TV to direct mail, and can



Want to set up your own telemarketing operation but aren't sure what you need to begin?

Getting Started With Telemarketing is a comprehensive guide that shows how telemarketing can work in a big way for even a small business—and with a minimal investment.



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help you choose the media mix that's most efficient for your needs.



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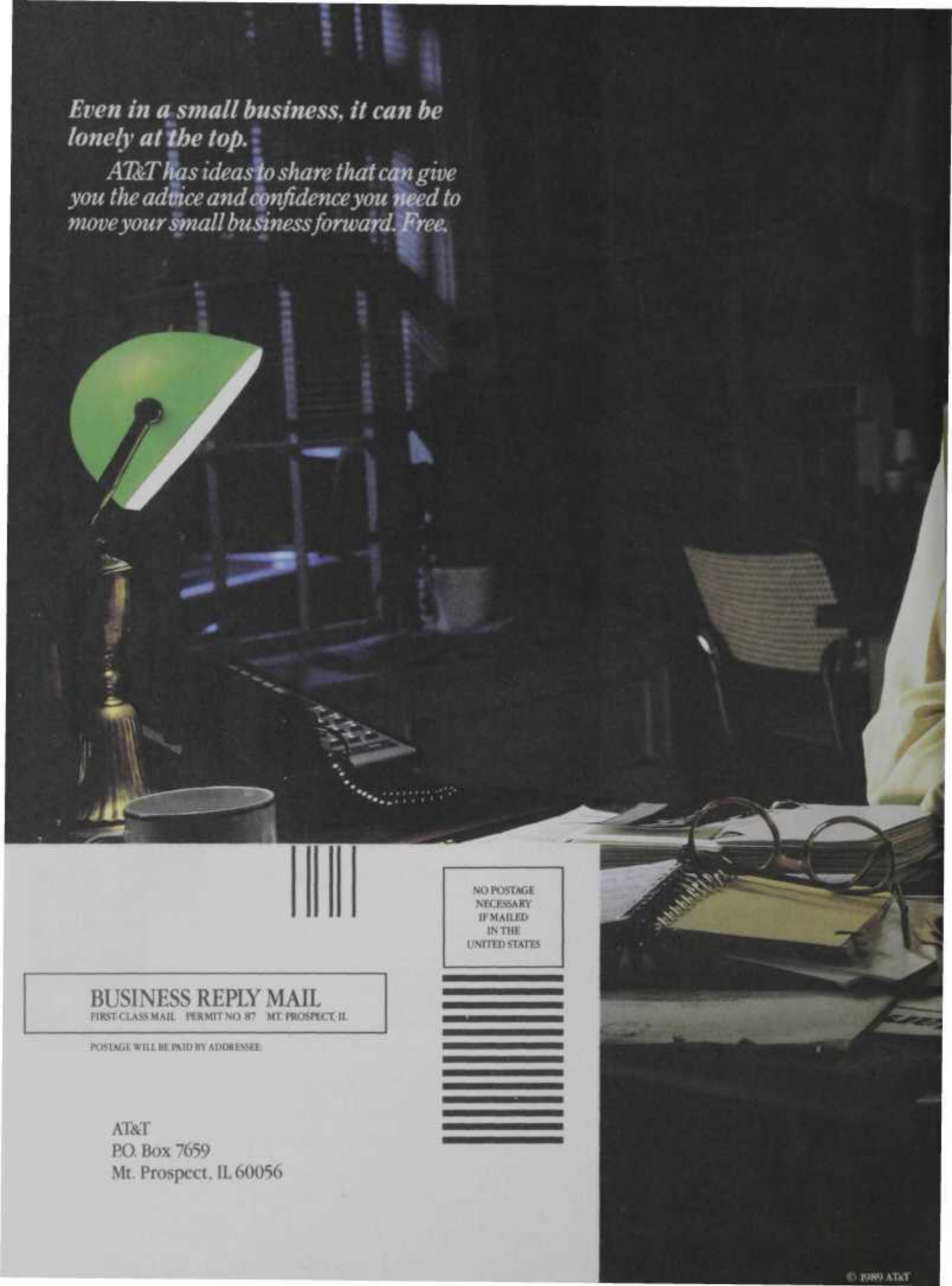
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An inspector charts the growth of wheat, an agricultural staple in Mexico.



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Continued from Page 44B

administration of President Carlos Salinas de Gortari is committed to continuing the trade opening in order to achieve its overall goal of a more efficient and productive Mexico. In late 1988, with many small and midsized businesses calling for import protection by way of a 10-15 percent peso devaluation, the government announced that the exchange rate will slip only a peso a day against the dollar during the first seven months of 1989. That would amount to only an 8 percent devaluation from January through July.

As 3M Mexico General Director Richard Graf said: "In the long term, Mexico has to get world-class competitive. The trade opening is going to force this to happen faster, maybe faster than Mexico would be comfortable doing it. But certainly it's going to force that to happen."

Foreign Investment

With imports flooding the local market, the next logical step is a foreign-investment opening that would bring the producers of imports to Mexico and help struggling businesses to compete.

"Direct foreign investment is a method of gaining access to markets and new technology," said Augustin Legorreta, who is president of the Mexican private-sector Business Coordinating Council.

To date, foreign investors, especially U.S. firms, have played an active role in the auto, tourism, in-bond assembly, pharmaceutical, petrochemical, electronic, textile, and food-processing industries. This investment trend is expected to continue because Mexico and the U.S. are working toward free-trade agreements in some of these industries.

Total annual foreign investment grew from less than $500 million in 1983 to almost $3.5 billion in 1987. The primary reason for the large increase was Mexico's debt-for-equity swap program. Before the program was closed in November 1987, it attracted some $1.9 billion of foreign investment to Mexico. It was closed because of strong lobbying by domestic investors—who correctly claimed that it was discriminatory against them—and because it was inflationary.

Among the obstacles that dissuade foreign investors from putting their money in Mexico is the country's foreign-investment law, which limits foreigners to 49 percent ownership. Under former Mexican President Miguel de la Madrid's regime, the law was bent considerably to allow majority foreign ownership in many cases.

But many feel that flexible interpretation is no substitute for clarity. As Rolando Safrana, president of the northern Latin American division of Coca-Cola International, said: "A way to increase foreign investment is to reform the current law reflecting the new policies announced by the Salinas administration instead of applying a more flexible criteria of interpretation. Things have to be crystal-clear. If you make the rules more attractive, there will be more foreign investment."

Mexico's swap program significantly improved the return on capital and gave investors access to long-term financing. While Mexico cannot afford to subsidize foreign investment through the swap program, it also cannot afford to lose those potential investors to other countries.

Many wonder how long economic policies begun under President Miguel de la Madrid and continued under Salinas will take to produce tangible results. "There has to be a sacrifice. What is bad is when people sacrifice and they don't see any results," Coca-Cola's Safrana said. "If the government continues with this policy, they will see some real improvements before the end of Salinas' administration."

The overriding question among many investors is: Can Salinas consolidate his power to push through his economic agenda?

The director of the Latin American division of a major U.S. investment firm said: "Salinas is young. He's an economist. He's got new ideas. And he's been there. If anybody can do it, this is the guy to do it."

IBM De Mexico: Bullish On Future



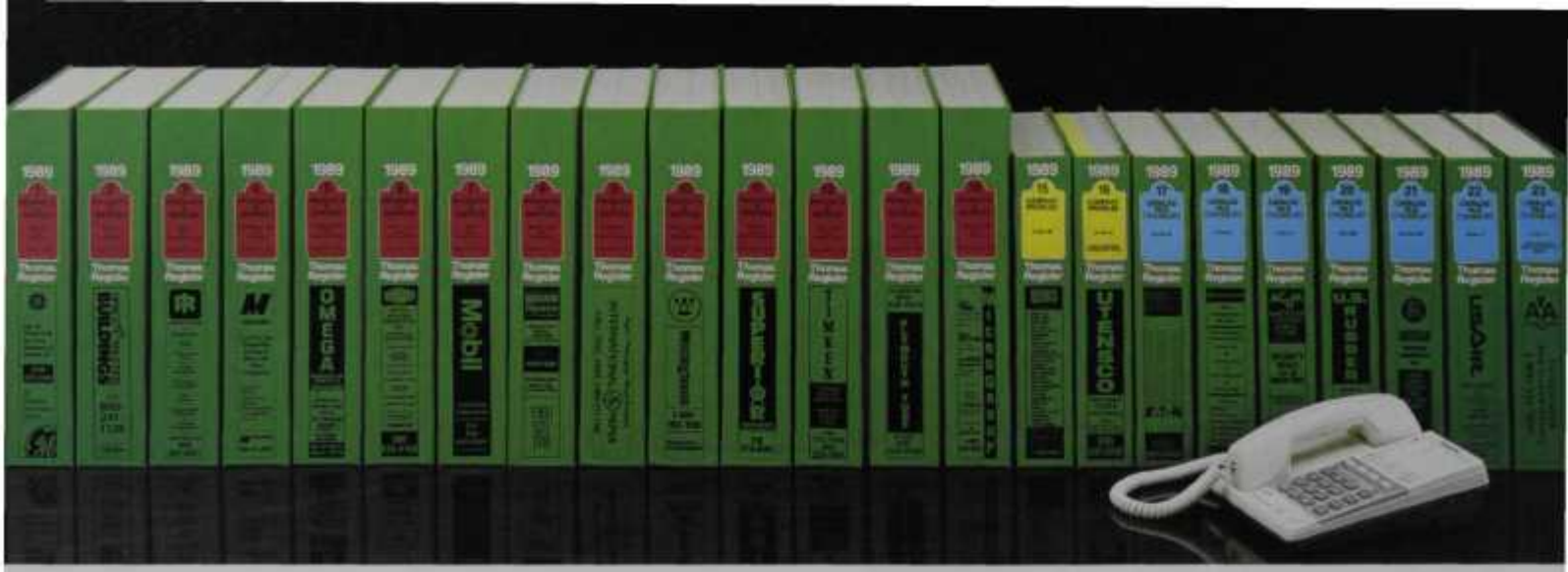
Rogelio Guerra

While Mexico's trade opening has many companies nervously watching their profit margins, IBM de Mexico S.A. sees mostly opportunity. "The trade opening is forcing many companies to look at tools for increasing productivity and facilitating decision making," said Rogelio Guerra, president and in-country general manager for IBM. "One of those tools is definitely the computer, which forms an integral part of any strategy to establish greater competitiveness."

Guerra knows about competing. IBM's Mexican subsidiary exports about 95 percent of its production. Despite the frozen exchange rate for most of 1988, the Mexican subsidiary of IBM doubled its exports last year.

If conditions were tough before, Mexican companies now are facing an even greater challenge: international competition at home. IBM's subsidiary, which was established in 1927, plans to be there when local companies turn to the computer industry for help. "Our manufacturing projects include significant investments in the next two years in the areas of training, technology transfer, and supplier development," Guerra said.

Competitiveness problems with the trade opening may well translate into more business for IBM de Mexico. Said Guerra: "We view the trade opening optimistically because we are convinced that it will benefit and offer great opportunities for the country in general and the computer industry in particular."



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NB-1

ECONOMIC DEVELOPMENT

States Go Global For Small Firms

To strengthen business within their borders, states are looking to overseas markets and promoting exports.

By Harry Bacas

The challenge of global competition is a topic that is no longer just for corporate strategists and Washington policymakers. The states too are pushing the internationalization of business, and for them it means small and medium-sized businesses.

All 50 states now have international-trade divisions. They spent an average of $1.3 million each within their borders last year to teach and assist smaller companies to find and develop overseas markets for their products and services. Increasingly, states are spending even more to promote exports than to attract foreign investments.

This trade-enhancement activity has become an integral component of state economic development, according to the National Association of State Development Agencies. States have been moving from general trade promotion into "providing more practical export assistance," says NASDA's Executive Director Miles Friedman, and the results have been "most rewarding."

For example, a Marion, Iowa, company, RPB Ltd., is a new joint venture between a contract manufacturer (a company that makes products on order for customers) and Italy's leading manufacturer of racks for holding electronic components. The Iowa trade office brought them together. RPB recently began turning out high-end racks and enclosures for telecommunications and other industries. "They had the technology, and we had the manufacturing and marketing skills," says RPB's president, Scott Brenneman.

New Jersey's trade director, Ming Hsu, says: "A lot of American business still hasn't developed an understanding of our global competitive situation. But there is a growing awareness that we have to run twice as fast to compete, and we have to compete to survive."

Hsu sends her agents to international trade shows to represent small New Jersey companies. She thinks it would be great "if every American business man or woman could go to one world show. It would give them a better idea of world business, they could see their own competition, and they would find that trade shows are a wonderful opportunity."

Hsu believes state export promotions will go a long way toward reducing the U.S. trade deficit. "Washington can do some things," she says, "but the states know the states best. That's our job."



PHOTO: © JIM HEEMSTRA—PICTURE GROUP

Ralph Brenneman and his son Scott run RPB Ltd., an Iowa-based joint venture with an Italian company for manufacturing racks to hold high-tech equipment.

States are increasing their efforts. The $62.1 million they spent last year to develop international trade was 60 percent more than they spent in 1986 and 195 percent more than in 1984. The figures are from the State Export Program Database, which is published annually by the National Association of State Development Agencies, 444 North Capitol St., N.W., Washington, D.C. 20001.

Mark. L. Chadwin, professor of management at Old Dominion University, in Norfolk, Va., says the new state emphasis on export development grew out of more traditional state efforts to attract foreign direct investment. He says the process was stimulated in part by high interest rates and "dissatisfaction with federal export-assistance programs, especially services and export financing for small and medium-sized firms."

A state trade division typically is under its economic-development department or its department of industry or commerce. Usually it operates from the state capital, although it may be in a large port city, such as New York, Baltimore, or Los Angeles.

State export divisions publish books on how to export, guides to government and university services and resources, and directories of export firms. They also assist businesses with marketing, education, and finance. They conduct market research, identify overseas agents, and try to match buyers with sellers. They put on seminars to lead small companies through the mysteries of export licenses, letters of credit, marine insurance, freight forwarding, customs clearance, and international communications.

Most states also offer small businesses face-to-face counseling by trained staff members or by experienced exporters. The counselor first obtains information on a company's products and its interests, strengths, and limitations, which results in a profile of the company that goes into the state's computers. Subsequent counseling deals with specific problems.

In a survey commissioned by the state of Washington, smaller exporters said their greatest needs, in order of importance, are better information on

States Go Global For Small Firms

markets and customers, improved internal export-management skills, easing of export and import regulations, and improved financing.

On the subject of financing, Old Dominion's Chadwin says: "Smaller exporters' access to commercial credit has improved little, if at all. Commercial banks generally continue to be unenthusiastic about providing export credit for smaller transactions."

Some states have taken the lead by providing direct loans or guarantees. For example, California has used a $4-million program to make guarantees supporting $50 million worth of export sales. But other states, wary of direct involvement in export financing, have no such programs.

Still, says Chadwin, any state can provide valuable financing help to a small exporter by supplying counseling that helps assess the soundness of the foreign customer, helps structure the financial transaction, provides entree to the Export-Import Bank of the U.S. and to more receptive commercial banks, and facilitates the financial paperwork.

An example of direct but flexible state financing is the $87,000 that Iowa recently put into the $500,000 joint venture between RPB Ltd. in Marion and its Italian partner to manufacture electronic-instrument racks. "It's a forgivable loan," says Scott Brenneman. "If we produce enough jobs, the loan becomes a grant. We don't have to pay it back."

Robert N. Lukat, vice president and general manager of the Atlanta Saw Co., an Atlanta manufacturer of blades for meat-processing equipment, says that some kinds of help are more useful than others. He ranks them:

- "Trade leads are the least valuable.
- "Providing references to people with expertise that we can consult on marketing problems and other hassles is more valuable.
- "Representing us at international catalog shows is very valuable.
- "Taking representatives of our company along to trade shows and assisting them there is the most valuable service of all."

Lukat, who accompanied a Georgia trade group on a trip to the People's Republic of China and says his state's trade-assistance department "has been of great help to us," cautions would-be exporters not to expect orders the first time they attend an international trade show.

"What you get are valuable contacts that may take one to three years to develop into a meaningful trading relationship," Lukat says. "You've got to do some business with them, prove your product's quality, prove your service, prove you can get the product to them quickly."

Lukat is glad to repay Georgia's help by consulting with other business people referred to him by the state for aid in solving their problems. "Exporters are glad to help other exporters," he says. "It's a low-profile business, and we're in it together." NB

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Payroll Savings Pay Off In Bonds

The payroll-deduction plan for buying U.S. savings bonds is gaining popularity as a convenient way to acquire safe investments.

By Joan C. Szabo

For 40 years or more, U.S. savings bonds were viewed by many as investments designed mainly to support the government, particularly in wartime. While patriotism may still be the principal appeal for some who buy savings bonds, recent changes in bonds have made them highly attractive investments for other reasons as well. In November 1982, savings bonds began to yield competitive, market-based interest rates, and investors took to them in a big way.

And as savings bonds have gained greater clout among investors, more and more companies have begun offering their employees the advantages of the payroll savings plan for acquiring bonds, say Treasury Department officials.

Under the payroll savings plan, which began in 1941, regular deductions from workers' pay are applied to savings-bond purchases.

It's a convenient way to purchase safe investments; the bonds are backed by the full faith and credit of the U.S. government. They also help strengthen the nation's economy by increasing savings and reducing the costs of financing the federal debt.

Each year, drives for savings bonds are held in companies across the country, and firms are encouraged by Treasury to set goals on employee enrollment and savings allotments. If past increases are any indication, the 1989 campaign will show continued expansion of commitment by U.S. businesses and their employees.

As of September 1988, there were 47,571 company units offering savings bonds through the payroll savings plan, a nearly 3 percent increase from 1987, when 46,349 offered the plan. In September 1982, only 36,288 company units were enrolled. About two-thirds of the units participating in the payroll plan have fewer than 500 employees.

Approximately 6.6 million employees buy savings bonds through the program with deductions that average $37.75 per month. Over the course of a year, those employees acquire, on average, 8.4 bonds per purchaser.

While bonds can be bought in other ways, such as at savings institutions, most of the 9.9 million Americans who purchase Series EE bonds each year take part in the payroll savings plan.



Savings bonds' competitive, market-based interest rates have boosted their appeal among investors.

"We have had a terrific response from employees," says Linda Jepson, a legal assistant with the Tampa, Fla., law firm of Kass, Hodges & Massari. Since the firm started offering the payroll savings plan to its 50 employees a few weeks ago, nearly half have signed up, and more are expected to do so. "It is a great way to save money," Jepson says, "especially for file clerks and clerk typists who can't seem to put much aside."

Establishing the program at the firm required little effort, Jepson says. "We talked to everyone individually, sent out letters, explained the program, then we distributed authorization cards and answered employees' questions. Employees started signing up, and the plan caught on quickly."

Vincent Pearce, manager of systems and programming at Bendix Field Engineering Corp., in Columbia, Md., says 99.5 percent of the company's 900 employees buy bonds through payroll deductions.

Pearce, who has been involved in his company's savings-bond campaign for three years, says: "The payroll plan is a painless way to save because it is automatically deducted from an employee's pay. Bonds are an easy way to make a safe investment."

Advocates of the payroll plan say it also is the easiest way for all Americans to participate in the financial affairs of the country, and it helps to improve the country's public-debt management while directly increasing the buyer's financial resources.

Says John L. Clendenin, the national chairman of the 1989 Savings Bonds Campaign: "Savings bonds continue to attract people looking for a stable investment with a solid return. There are many strong incentives for parents saving for their children's education, as well as for those saving to supplement retirement income or for other needs. Best of all, bonds help fuel the long-term economic growth of our country."

Clendenin is chairman of the board of BellSouth Corp., in Atlanta, and incoming chairman of the U.S. Chamber of Commerce.

Under the payroll savings plan, employees purchase Series EE savings bonds through regular payroll deductions. Once the full purchase price of a bond is met, the person is issued the bond, which begins earning interest from the first day of that month. The U.S. government guarantees principal and interest.

Series EE bonds are accrual securities, which means that the interest is credited periodically, increasing the bond's total redemption value; interest is paid when the bond is redeemed.

Savings bonds were first issued in 1935 when Series A through D, the "Baby Bonds," were made available. Then in 1941, Series E bonds were issued to help support World War II.

In 1982, savings bonds became variable-rate securities instead of fixed-rate securities. The market-based interest rate system has resulted in increased sales, says Mike McKinney, area direc-

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MANAGING YOUR BUSINESS

From Calamity To Conglomerate

By Glen Macnow

The luckiest moment of Ed Snider's life may have been the day the roof blew off.

It was in February 1968, and 11,000 people were packed into Philadelphia's year-old Spectrum arena, waiting to see a matinee performance of the Ice Capades. Suddenly, a gust of wind ripped off most of the roof, sending it crashing to the ground outside.

Edward Malcolm Snider, at that time a 35-year-old sports entrepreneur, did not know it then, but that hole opened up more than the Spectrum. It also uncovered the opportunity for Snider to build a financial empire.

Snider had been part of a group that had built the Spectrum for $12 million and then had donated it to the city. Though the city fixed the roof soon after the calamity, the Spectrum's fortunes fell into disrepair; by the early 1970s, it had few bookings and was in bankruptcy court. Snider figured that all the arena needed was hands-on management and a renovated image. "The building had been neglected from the day it opened," he recalls. "I wanted to make sure it didn't fall apart. I cared about it. I loved the Spectrum."

So Snider got backers to put together $8 million, he paid off the creditors in full, and he got a lease on the building that runs through 2021. Snider's company, Spectacor, pays Philadelphia $1,250 a month (and no real-estate taxes) for the right to book, manage, and maintain the arena. In return, Spectacor keeps all profits from the building as well as two-thirds of the profits from an adjacent parking lot.

The Spectrum now books more than 300 events a year, and Snider says it is "the busiest and most profitable arena of its size anywhere." It also has provided the cash flow to fuel Snider's other enterprises.

Today, Snider's Spectacor company is a sports and entertainment conglomerate with 2,000 full-time and 6,000 part-time employees in businesses from coast to coast. Its annual revenues are estimated by outside sources at close to

Glen Macnow writes about the business of sports for the Philadelphia Inquirer.

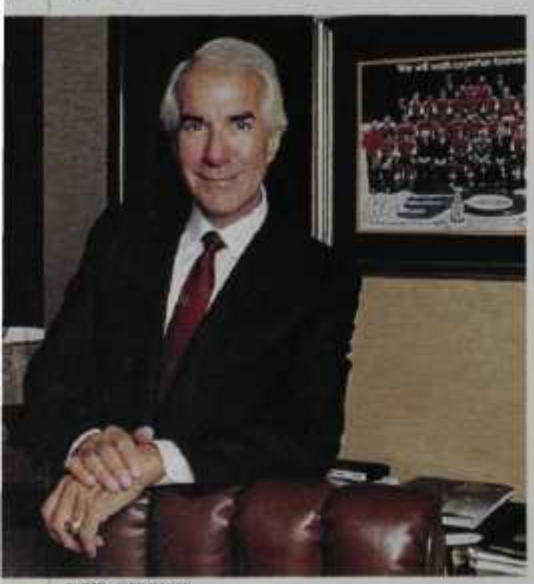
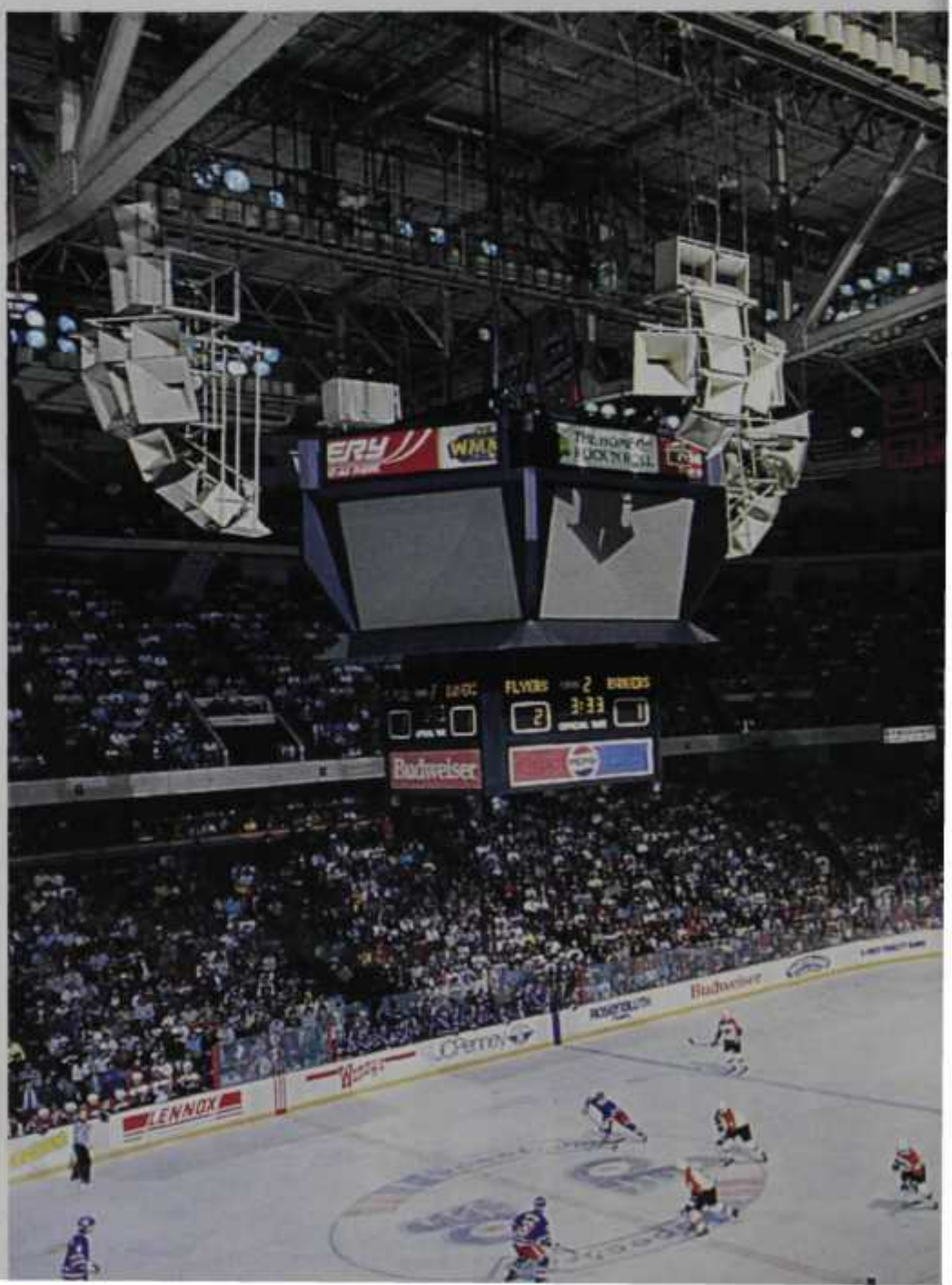


PHOTO: © ED MAHAN

"I just never gave it any thought that I might fail," says Ed Snider.



Entrepreneur Ed Snider took over Philadelphia's financially crippled Spectrum arena in the 1970s and shaped it into the moneymaking keystone of a nationwide sports and entertainment empire.

$125 million. Its holdings include the Philadelphia Flyers of the National Hockey League (NHL), a Los Angeles pay cable TV station, an all-sports radio station, a chain of 41 sports-apparel stores, a security company, a film-production company, a facilities consulting firm, and a group that manages stadiums, arenas, and shopping malls.

It all makes Spectacor a combination of sports businesses rivaling the likes of Atlanta-based Ted Turner, with his professional teams in baseball (the Braves) and basketball (the Hawks), and his cable-TV enterprises, or the Gulf & Western Corp., which embraces Madison Square Garden, basketball's New York Knicks, the New York Rangers of the NHL, and a cable-television network.

First and foremost for Snider, though, is the Spectrum, a busy and profitable operation that in 1972 was a bankrupt 18,000-seat arena snubbed by most performers.

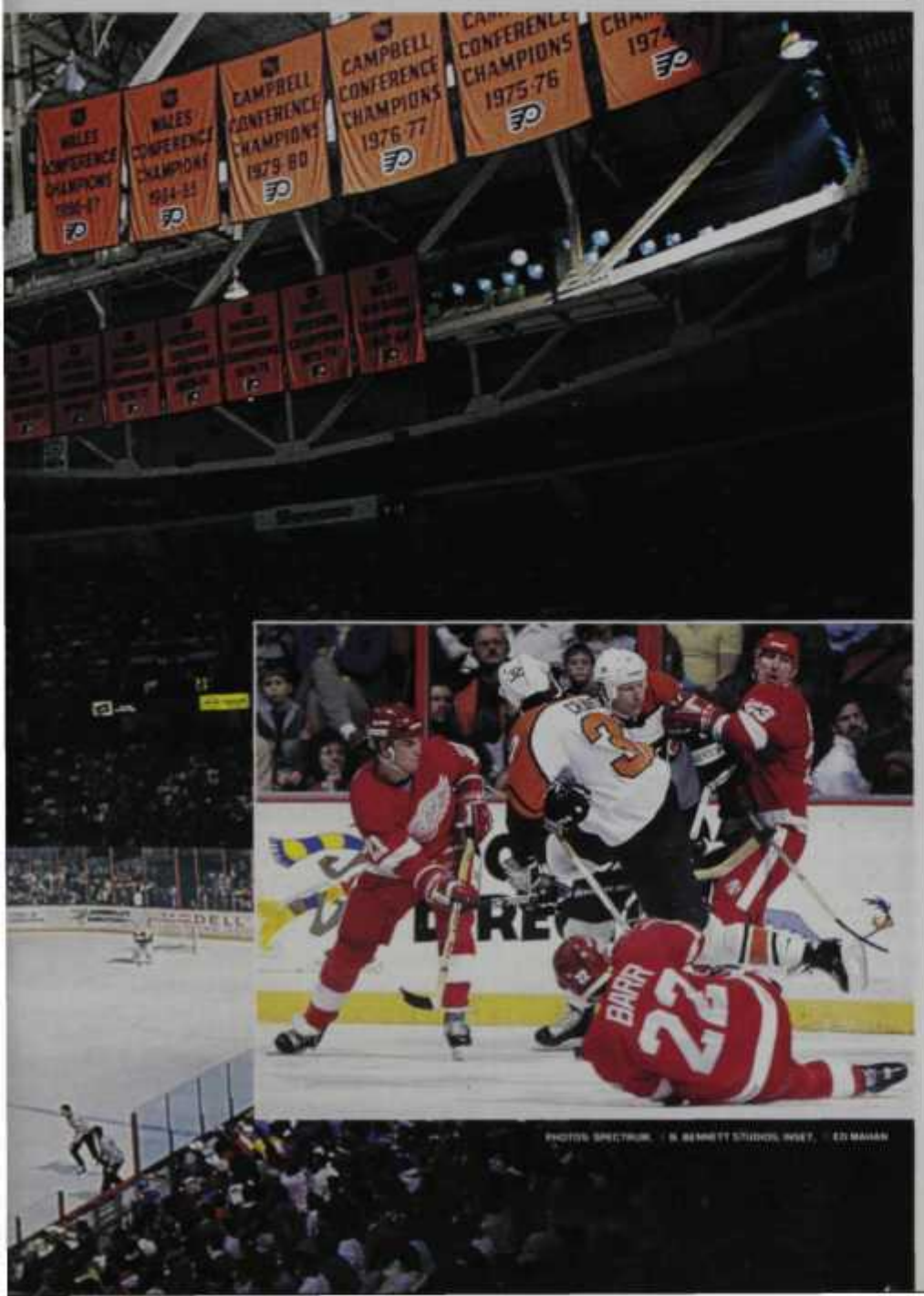
And Ed Snider? Most Philadelphians at the time saw him as a naive dreamer who would be trampled by a white elephant. Looking back, he doesn't exactly disagree. "It was a risk that I would never take today," says Snider, now 56. "But young men take gambles. I just never gave it any thought that I might fail. Or if I gave it thought, I refused to admit it."

Putting together the $8 million rescue package for the Spectrum "was the move of a risk taker," says Matt Levine, head of Levine Management Groups, a San Francisco-based sports-consulting firm. "And it was the move of someone with supreme vision. Everyone else saw the Spectrum as a disaster; Ed Snider saw it as an opportunity. He is one of those rare people who see facts differently than the rest of the world. It is sort of like Picasso or Braque, who could look at still-life items and reconstruct them from a completely different perspective. That was cubist painting; Ed Snider practices cubist management."

Every time a turnstile spins at the Spectrum these days, it generates more money for Ed Snider to tackle a new venture. And if Snider is a gambler, he is one who knows how to parlay one good hand into many, many more.

Start in 1965, when Snider, a young family man, learned that the National Hockey League intended to expand to 12 clubs from six. Most Philadelphians had never seen the sport; indeed, Snider himself had viewed his first hockey game just a few years earlier in New York. But he was sure the game would catch on in sports-crazy Philadelphia.

Snider convinced Jerry Wolman, owner of the Philadelphia Eagles football team, to help him come up with the $2



The success of his Philadelphia Flyers, shown in action against the Detroit Red Wings, gave Ed Snider the courage to take over the Spectrum, an arena whose cash flow has fueled the growth of his other businesses.

PHOTOS SPECTACOR; B. BENNETT STUDIOS, INSET; ED MAHAN

From Calamity To Conglomerate

Ed Snider's empire includes 41 SpectAthlete stores, such as this one near Philadelphia. Most of the athletic outfits and souvenirs bear professional and college team logos.



PHOTO: © SAL DIMARCO JR.—BLACK STAR

million NHL entry fee, and in 1967 the Philadelphia Flyers were born. The two men were partners at that time in both the Eagles and the Flyers, and Wolman also had an interest in the Spectrum. That year, however, Wolman and Snider dissolved their partnership for reasons neither of them will discuss. Wolman retained the Eagles and withdrew from the operations of the Spectrum, and Snider kept the Spectrum and the Flyers.

Seven years later, the Flyers won their first Stanley Cup—signifying the champions of the NHL—and they won the championship again in 1975. They have made the league playoffs for 17 straight years, and they ran off a string of 16 consecutive winning seasons, which ended this year.

Most important, the Spectrum is sold out for at least 40 Flyers games every year.

"We've obviously established the standard—on and off the ice. I'm very proud of that. Of course, looking back at the record, I can see that I was hanging by a thread and didn't know it then."

The success of the Flyers gave Snider the courage to take over the Spectrum, and the success of the Spectrum gave him the capital to start new projects. In 1976, he joined with Twentieth Century-Fox to start PRISM, a Pennsylvania sports and movie cable channel (which, not surprisingly, broadcasts a large number of Flyers games). In 1984, Snider sold his interest in PRISM to the Washington Post Co. and Sportschannel Cablevision, at a profit in the tens of millions of dollars.

The Spectacor empire now includes:

- Spectacor Management Group, which provides booking, marketing, operations, security, and financial management for 19 facilities—from the New Orleans Superdome to the Los Angeles Memorial Coliseum. Gross sales totaled $162 million in 1987.
- SpectAthlete, a chain of 41 stores in the Northeast selling athletic outfits and souvenirs. Sales at the stores jumped from $4.5 million in 1984 to $18 million in 1988.
- SMI Consulting Associates, whose services include advice on financing and managing sports facilities and convention centers.
- Spectacor Films, an independent television and film production company headed by Michael Jaffe, former producer of the TV series "Crime Story."

What does Ed Snider know about making films? "Not a thing," he admits. "But one of the fortunate things I've found in life is that almost all businesses are the same—they just do different things. I couldn't be the chief scout of the Flyers, I have to get the best scout. I couldn't run the generators at the Spectrum, I have to get the best person. The creativity of films is something I wanted to be involved with. I wanted to make my favorite kind of films."

Three of Spectacor Films' productions have been broadcast in recent months. "The Great Escape, Part II" and "The Hijacking of the Achille Lauro" ran on NBC. "The Penthouse," starring Robin Givens, was on ABC.

- The Z Channel, a premium pay-cable service in Southern California with the rights to broadcast home games of the Los Angeles Dodgers, the California Angels, and the Los Angeles Clippers.
- WIP-AM radio, a Philadelphia station that carries sports programs 24 hours a day.
- SpectaGuard, a security company with 200 clients in seven states. In addition to uniformed-guard service, the firm markets electronic alarm systems.

SpectaGuard was started not by Ed Snider but by his son Jay, right after his graduation from the University of Pennsylvania in 1980. Only after it became successful was it brought under the Spectacor umbrella. "I knew I would eventually work in our family business," says Jay Snider, 31, "but I didn't want to be given anything. I wanted to learn what it took."

In 1983, at age 25, Jay was named president and chief executive officer of the Flyers. Cynics may snicker that it is a classic example of the father turning over his business toy to the son, but those who keep an eye on the club say Jay has run it independently and well. These days, Ed Snider limits his involvement to several key meetings a year and as many home games as he can catch.

"I know he is keenly interested in what we do," says Jay Snider. "He loves the hockey club. Beyond that, this is his investment, whether I'm his son or not. But he stays out of the day-to-day operation. He lets me make and learn from mistakes. His philosophy is that he has hired people to do a job, and he does not want to interfere."

Indeed, Snider has learned to delegate authority to the degree that he can focus his attention on creating new businesses, not on keeping the old ones running. He began Spectacor 15 years ago as a private business and remains the "umbrella" firm's only shareholder, although top executives can own shares of the firm's various subsidiaries.

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ther owns a piece of the business or shares in the profits," he says. "Basically the thinking is that in order to have an operation this size, I must do this or else be a slave to the work. When I was smaller but growing, I saw things coming back at me 24 hours a day, seven days a week. My choice was to stop growing, stay small, and have a decent personal life—or to have a business with some autonomy that could function without me.

"See, I'm an entrepreneur, I'm creative. I love to create new businesses and see them work. When it gets to the day-to-day management, it's something I don't particularly enjoy. So I find others who enjoy it and can do a better job."

One of those who enjoys it is Gary Adler, CEO and co-owner of SpectAthlete. Adler was running 10 New York stores, called Complete Athlete, when he met with Snider, who had 14 Philadelphia-based stores called Showcase. They merged, and now Adler handles the daily management of the chain while Snider lends creative ideas.

Adler says: "He'll call me up and say something like, 'Why don't you look into going mail order?' So I examine it, and it turns out to be a great concept. He'll never push too hard, but he almost always seems to be right."

Around the sports industry, few doubt Snider's foresight and abilities. "He's one of the few people in sports who made his fortune by owning a club," says William Giles, president and general partner of the Philadelphia Phillies. "Most people make their money elsewhere and then buy a club. Ed Snider did it the other way around."

Snider does not concern himself with what others think. As a devotee of novelist Ayn Rand and her philosophy of objectivism, Snider sees man as a heroic being with his own happiness as the moral purpose of his life, with productive work as his noblest activity, and reason as his only deity. Critics call objectivism a defense of greed and self-interest. Snider sees it differently.

"It's not worrying about what others think," he says. "It's looking in the mirror and knowing for yourself what you've accomplished. When I read [Rand's] "Atlas Shrugged," it blew me away. It says that a man's work is his life. The monetary reward is what measures his work. That does not mean I'm doing it for the money, but the money is the measure of success."

Snider regularly met with Rand before her death in 1982. Later, he helped found the Ayn Rand Institute in Los Angeles to promote objectivism. Currently Spectacor Films is working on a feature film version of "Atlas Shrugged."

After the breakup of his first marriage, Snider married again, in 1984. He has four children from the first marriage and one from the second. These days, Snider spends as much time working on film projects in Malibu, Calif., as in his offices in center-city Philadelphia or suburban Bryn Mawr. And although he is in a public business, Snider is secretive about his personal life. He refuses to discuss his considerable charitable work. He gave $2.5 million to the University of Pennsylvania's Wharton Entrepreneurial Center—since renamed the Sol C. Snider Center in honor of his father. He is a member of the board of the Institute for Cancer and Blood Disease at Philadelphia's Hahnemann Medical College and Hospital, is on the board of trustees of the Foreign Policy Research Institute, and is a trustee of the Museum of American Jewish History in Philadelphia.

What does he like to talk about? Start with hockey, but realize that he knows his hockey (next to the plaques of Gordie Howe, Bobby Orr, and Guy Lafleur at the Hockey Hall of Fame in Toronto hangs one of Edward Malcolm Snider). Then move on to pinball, but understand that the man you're speaking with was the 1985 champion at the Frank Clements Bar annual tournament in South Philly.

"Underneath this businesslike, Ayn Rand-ian exterior of Ed Snider, there is a man who loves to play games," says Levine of the sports-consulting group. "That's the spontaneity in him, the gambler. He has this pixieish side that says, 'Be on the alert for what I do next,' when even he might not know what he's going to do next. But he knows how to take risks."

And Ed Snider has shown that when he does take risks, he knows how to win. NB

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Bad Debts Are Worth Collecting

Tighten your credit procedures, keep an eye on customers' payment patterns, and act fast to collect from those who skip out on you.

By Charles A. Jaffe

On the night in 1981 when American Energetics Inc. completed its first sale, company founder Marshall Craig did what most new business owners do: He celebrated.

"It was a c.o.d. shipment made to a guy just north of here," says Craig, whose St. Petersburg, Fla., company sells solar film used to tint, insulate, and protect glass. "We were so happy to get that $137 check that we went out and had a party. What a great feeling."

Until the check bounced.

"Our first sale, and we never collected it," Craig says wistfully. "We tried, but never did. We were rookies hungry for business, and we didn't think about what could go wrong. That was our starting point. Things have changed a lot since then."

Today, Craig's firm, a $2.5-million company with 12 employees, requires cash on its first sale to a new customer. Thereafter, a completed credit application and a credit check determine whether a buyer can run a tab. The measures are necessary, Craig says, because, like many companies, American Energetics has customers across the country who are little-known and seldom seen by anyone in the home office.

"We've tightened up on the information we ask for up front, and if someone goes bad, we're a lot faster in going after them," Craig says. "I give it about three phone calls before I go to a collection agency. If we don't act quickly, chances are that we won't get our money. As a result, we have a lot fewer bad accounts than we did a few years ago."

At a time when combined corporate and consumer debt in the U.S. exceeds $2.4 trillion, businesses are facing an alarmingly high number of "skips," or accounts that are delinquent because the customer has "vanished." Coping with credit problems, according to industry experts, requires that a company—as Craig's did—take measures to protect itself.

The collection industry's experts estimate that bad debts range from 3 to 5 percent of consumer accounts and 2 to 4 percent of commercial accounts. Good collection procedures, by most estimates, can reduce unpaid debts to 2 to 3 percent on consumer accounts and to 1 percent or less on the commercial side.

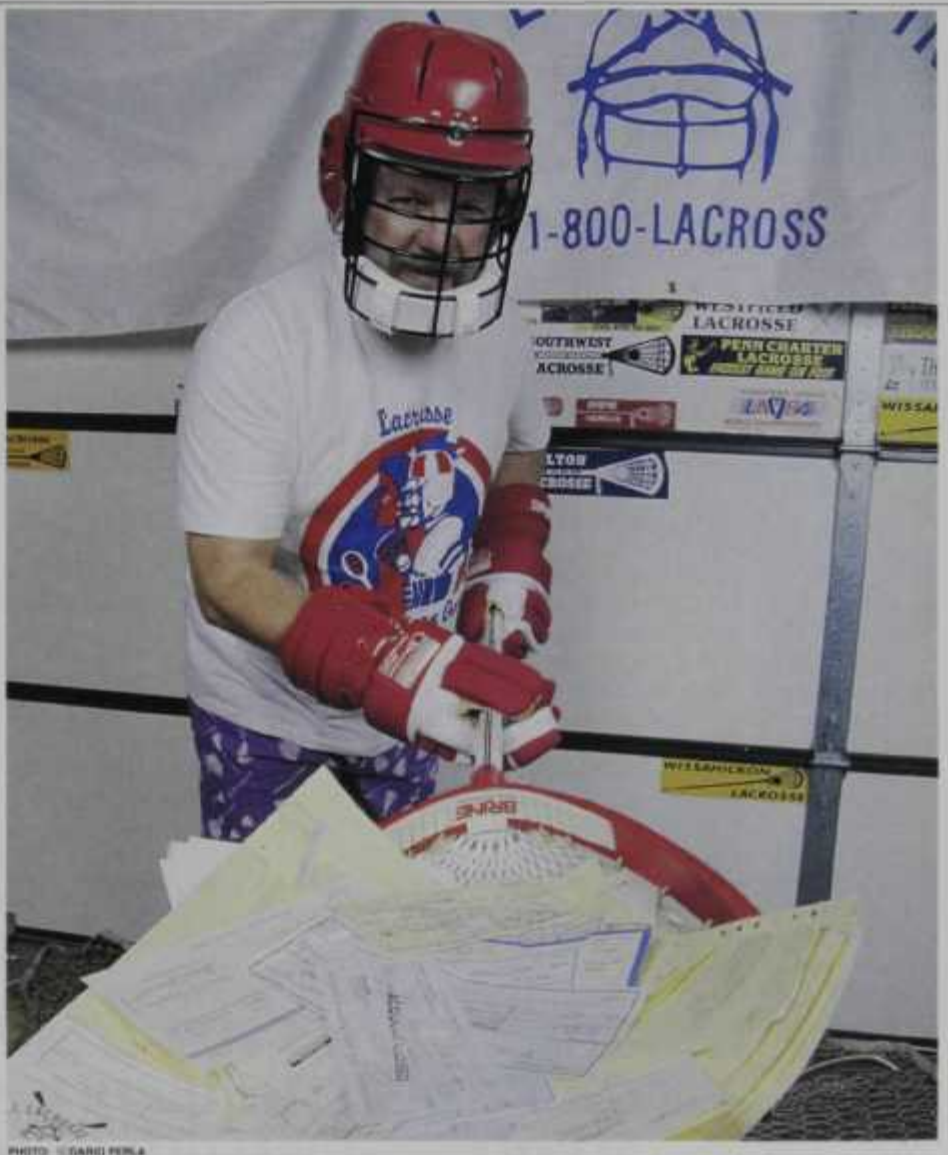


PHOTO: DARCI PERLA

Spence Willard, who sells lacrosse equipment in his Montclair, N.J., store and at tournaments, tracks down bad-check writers through their friends to net what's owed him.

The American Collectors Association, a Minneapolis trade group representing 3,500 independent collection agencies, estimates that in 1986, the most recent year for which it has figures, delinquent accounts worth roughly $20 billion were turned over to recovery agents. "And there's probably another $20 billion that businesses don't even attempt to place with an agency or collect on," says the ACA's administrative vice president, David Peterson. "A lot of that debt could be recovered but isn't."

Business owners and credit managers often are ill-equipped to pursue skips or even to provide a professional collection company with enough information to have a reasonable chance of recovering the debt, according to collection specialists. They add that owners often are not even aware of the severity of the skip problems affecting their companies. When business is good, it's easy to overlook a few missed pay-

Charles A. Jaffe is business editor of The Morning Call, *in Allentown, Pa.*

Bad Debts Are Worth Collecting

ments. Some entrepreneurs even help carry delinquent debtors along in the belief that the customer eventually will turn business around, or they may simply take a write-off without giving chase because they figure that bad debts are part of doing business.

Bad debt translates quickly to the bottom line; a company's sales and work force can grow while its profits shrink because an increasing number of customers have accounts that are 90 days or more past due.

Paul J. Schoff, who specializes in debtor-creditor matters for the Allentown, Pa., law firm of Margolis Smith Baker & Schoff, says: "Nobody likes pursuing bad accounts, and, as a result, problem accounts are often overlooked. What makes that sad is that it's easy to establish a system that makes collections less frustrating and increases the chances of finding a customer who disappears."



PHOTO: © RIC FERRO—BLACK STAR

Careful credit checking and quick action on unpaid bills are among Marshall Craig's measures for trimming bad debts at his St. Petersburg, Fla., solar-film company.

Changing credit procedures to improve the chances of recovering bad debts usually requires little more than common sense.

The first place to look for the customer who skipped—and the first procedure within your own company to examine for effectiveness—is the credit application. It is a lasting link between customer and company, and it should be complete and informative.

Too often, collection specialists say, the credit form is given cursory attention. In many instances, the sales staff is responsible for having customers complete the application, but the chore is permitted to lapse in an effort to lock up the sale quickly. In addition, many companies don't like to be too aggressive in asking for credit information, fearing that their credit procedures may scare a customer off.

"If a guy doesn't like your credit application or says that you're paranoid and that he isn't going to fill it out, that should be a high sign that you might want to think carefully about extending him credit anyway," says Les Kirschbaum, president of Mid-Continent Agencies Inc., a Chicago-based commercial collection agency with several offices around the country.

Maurice H. Margotta Jr., vice president and director of education for the National Association of Credit Management, in Columbia, Md., says of customers' hesitancy: "You have to ask if they are being sensitive because they are trying to hide something or because they feel that this is an interrogation."

The information that most collection officials want on a credit application includes the place of business, home addresses, telephone and Social Security numbers of principals and any other parties who may guarantee the debt, landlord's name and address where applicable, bank-account numbers, and credit references.

A written authorization will provide access to the status of a customer's bank accounts. Many businesses, after running conventional credit checks, retain this authorization for use in case the customer skips.

In short, knowing as much as possible about the customer leads to the best chance of recovering a bad debt, regardless of the reason for the skip. Information that may seem frivolous can lead to the delinquent customer. This is true particularly in smaller industries where many of the players know one another.

Knowing friends and acquaintances of customers, for example, has helped Spence Willard solve some of his bad-debt woes. Willard, owner of All Lacrosse, a lacrosse-equipment store in Montclair, N.J., sells equipment at lacrosse tournaments around the country. On the sideline, however, he can't check a customer's credit before making a sale.

"We went to a tournament recently where a guy gave us a bad credit card," Willard recalls. "He had given us a phone number, but it was at a construction site, and the contractor he worked for had moved on by the time we called. So I called the guy who ran the tournament, who put me in touch with the club president of the guy who owed us the money, who put us in touch with our guy.

"When we finally found him, he apologized, saying he hadn't realized what had happened. We got our $192; it was too small an amount to send a collection agent after, but most of our sales fall into that category."

The credit application should, if possible, include conditions that favor the seller in case the account becomes past due. The main stipulation that collectors and lawyers want on the credit application requires the delinquent customer to pay any collection and court fees. Interest on late payments should also be specified on the application.

"Without the stipulation that the customer pay the fees and/or court costs, you might be more apt to write the debt off," says Huey Mayronne, executive director of the New Orleans-based American Recovery Association. "Making the debtor responsible for fees may make the creditor more aggressive in turning a bad debt over to a collection agency or an attorney. It may also frighten the customer into paying you over someone who doesn't have that on his credit form."

Having a customer complete a credit application is not enough. Debt-recovery experts say the application must be





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current if it is to be an effective skip-tracing tool.

"You will always have the best chance of collecting if the trail is still warm," says Mid-Continent's Kirschbaum. "Not only should you get as much information as possible on your credit application, but you should keep that information up-to-date. You may have a customer who is great for years while business grows, but when business slows and he skips, you'll want to know where to find him in a hurry."

Obviously, the credit grantor should make sure the information is accurate before extending credit. Local and regional credit bureaus usually can provide information quickly and easily, and often they can help find skips who relocate and start new accounts elsewhere.

Once credit is extended, industry officials say, the business owner or credit manager must devise a plan to deal with delinquent accounts.

The first step in this plan is anticipating the problem. If a customer has been paying promptly but suddenly falls behind, it might be a sign of trouble. The same is true for the customer who pays routinely at 60 days but inexplicably starts falling into the 90-day category.

Once an account is overdue or a client has skipped—and assuming the debt is large enough to make collection cost-effective—the business owner or credit manager must act quickly. If clues aren't turned up quickly with a few phone calls, such as to the bankruptcy court and the customer's landlord and bank, the owner or credit manager should decide whether to bring in outside help.

Most collection agencies will negotiate fees based on an estimate of their ability to recover the debt and on the amount of accounts turned over to them. Since fresh trails are easier to follow, turning delinquent accounts over to collection agencies quickly should reduce collection fees. Most fees are contingent upon collection.

"Without the right preparation and know-how," says Peterson, "without making the right effort to stop bad debts right from the start, the chances of finding a skip or collecting a bad debt are slim. What you're left with is 100 percent of nothing. That may get you a little tax write-off, but it doesn't pay your bills." **NB**

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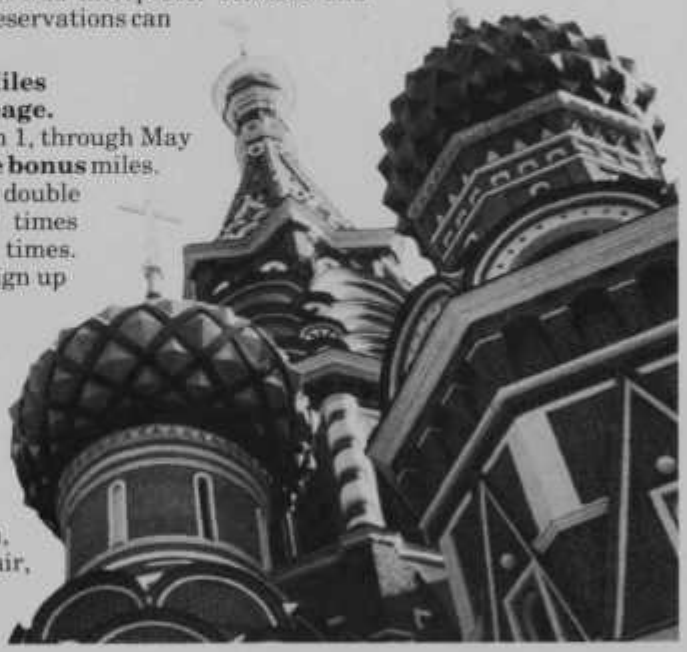
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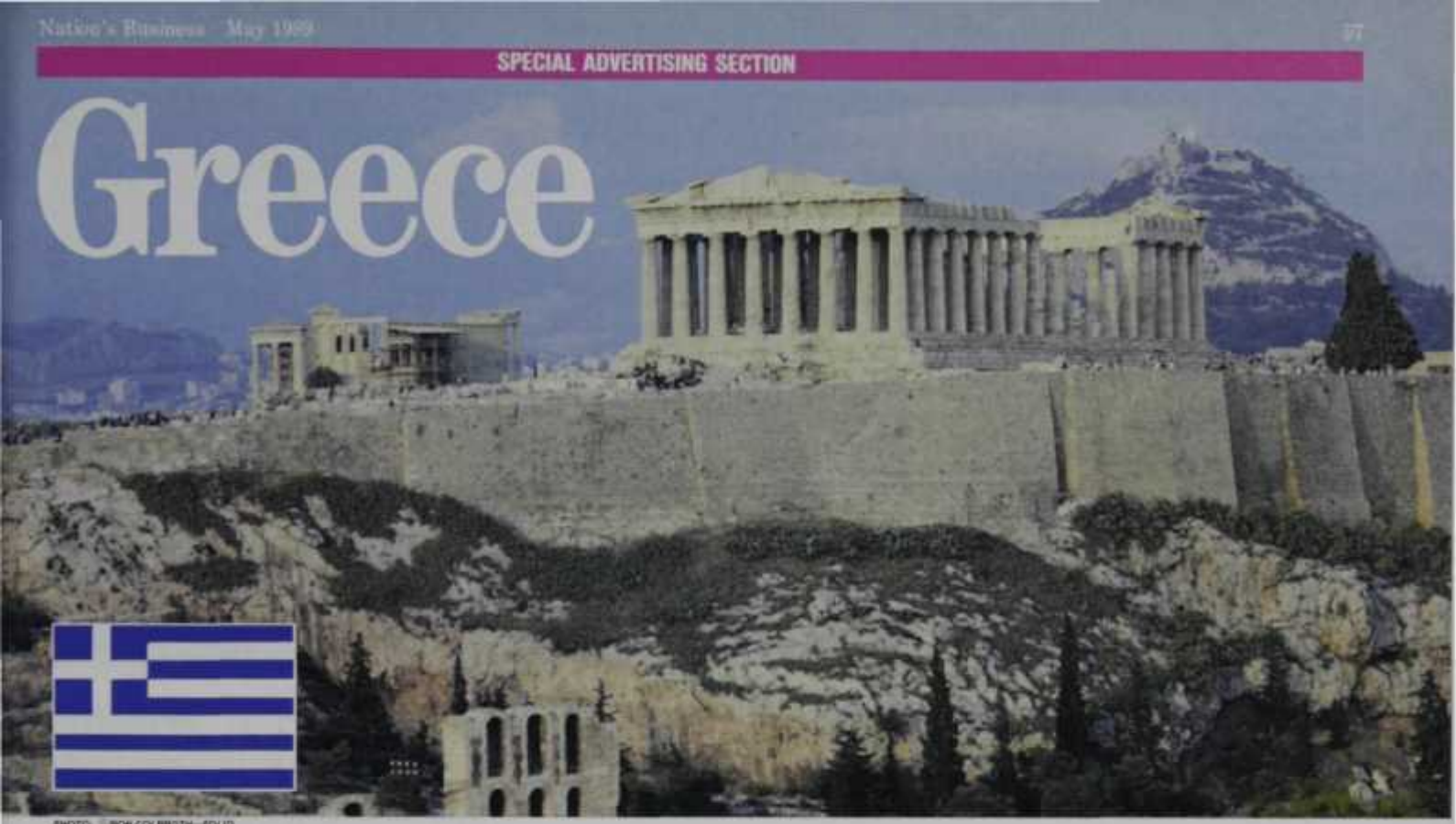


PHOTO: RON COLBRETH—FOLIO

(Second of two parts)

Greece, a nation with a longer and stronger cultural heritage than almost any other, is in the midst of another renaissance. Profitable business opportunities are being reborn for Greek and foreign business people alike, largely as a result of dramatic improvements in the Greek economy since 1985.

The two-year economic-stabilization program instituted in that year by Prime Minister Andreas Papandreou, subsequent measures taken to promote balanced, noninflationary growth, and reforms of financial policies and institutions have given birth to countless private enterprises. Last year alone, total private investment in Greece increased almost 38 percent from a year earlier, from 104.6 billion drachmae to 144.6 billion drachmae.

Investment Targets Hard To Miss

The Greek Ministry of National Economy has identified a multitude of investment opportunities, including a wide range of export-oriented products and products that would modernize Greece's industrial, agricultural, and commercial bases.

Among these industrial and consumer goods are computer hardware and software and other business machines, automotive parts, machine tools, medical equipment, biomedical products, clothing, metal office furniture, iron castings, enameled hardware, cutlery, petrochemicals, cosmetics, adhesives, detergents, rubber products, and paints and varnishes.

Agriculture remains a key sector of the Greek economy, so the government is eager to fully modernize this industry. Thus, opportunities abound in food processing, packaging, and distribution. The northern region of Greece is rich in timber, providing production opportunities for pulp and paper, furniture, and other wood products.

The Greek government is in the midst of a concentrated effort to upgrade the country's infrastructure, a program that is providing billions of dollars of new business opportunities. Six construction projects, valued at more than $7 billion, under the program stand out. They are the Rio-Antirio bridge, the Athens metro system, the Acheloos River diversion, the international jetport at Spata, modernization of the Greek railroad system, and improvement of the national highway network.

Greece hopes to be designated by the International Olympic Committee as host of the summer games of 1996, the hundredth anniversary of the first modern Olympiad. If Greece wins this honor, as seems appropriate, substantial amounts of money would be spent—before the Olympic flame is lit in Athens—on stadiums and other sports venues, hotels and athlete housing, highways, and more. Like other Greek public-works projects, Olympic-related construction would be open to foreign investors.

A new and constantly increasing capital inflow for the Greek economy consists of the foreign currency and the technology transfer arising from the new offset policy recently established by the Greek government. The main offset agreements have been signed between the government and the French and American companies manufacturing the Mirage-2000 and the F-16 aircraft, respectively. The programs will last 15 years. Offsets are implemented through investments and in other ways.

The Hellenic Business Development and Investment Co. promotes investment projects that generate foreign currency. It was incorporated in 1988 after parliamentary approval. Its shareholders are General Dynamics Corp., General Electric Co., Westinghouse Electric Corp., and the government of Greece represented by the Ministry of National Economy. HBDIC's share capital is $50 million.

Exporting Promises Profits

"Exports are one of the essential factors for the smooth industrial development of our country as well as for the economic development and improvement of our people's living standards," according to Nikos Acritidis, former minister of commerce for Greece. He said an internal market as small as his nation's cannot support full-scale export industries.

Greece's new emphasis on exporting to its 11 fellow members of the European Community as well as nearby nations of the Middle East and Northern Africa is of great potential benefit to foreign-owned businesses in Greece. The Greek government now provides a wide range of export-assistance services for foreign as well as domestic firms. More specifically:

- **Factoring-Forfaiting.** Two recent acts by the governor of the Bank of Greece have made legal export factoring and forfaiting services. Factoring is the commercial process through which an agent buys the short-term accounts receivable of a consumer-goods exporter. Forfaiting generally involves three-to-five-year financing of capital-goods exports.
- **Financing.** Greece has established

G R E E C E



PHOTO: EMBASSY OF GREECE

an Export Bank, which will specialize in export-import financing. It will offer mostly long-term financing without demanding guarantees and will employ modern banking techniques, including factoring and financing of triangular transactions.

- **Insurance.** Greece also has recently established a revitalized and expanded export-insurance organization, called the Export Credit Insurance Organization (ECIO). Like similar organizations throughout the European Community and the U.S., the ECIO covers all kinds of risks.
- **Trading Companies.** Much like the big-business-dominated U.S. export sector, about 200 Greek companies account for about 75 percent of the country's manufacturing products.

The remaining 25 percent comes from about 10,000 small firms, which have relatively high production costs and low productivity because of their size.

To aid smaller domestic and foreign exporters, the Greek government has taken steps to encourage formation of export-trading companies specializing in one or more industrial or agricultural sectors.

However, perhaps the biggest recent boost to domestic and foreign exports is in the area of government export-development programs.

The Greek government has dramatically extended and improved activities of the Hellenic Export Promotion Organization (HEPO). Its responsibilities have been expanded well beyond its traditional scope of representing Greece in international trade fairs, advertising Greek products abroad, conducting foreign market research, and hosting foreign buyers. Among HEPO's new activities are:

Business opportunities are being reborn in Greece for domestic and foreign business people, largely as a result of dramatic improvements in the Greek economy since 1985.

- **Promotion.** HEPO has been empowered to select Greek export products (according to established criteria) and promote them aggressively in selected foreign markets.
- **Marketing.** The HEPO works closely with associations of manufacturers in the selected industries and Greek export market consultants in the selected countries in marketing Greek products and facilitating export.

Government Sparing No Effort

In summary, it is clear that the government of Greece is sparing no effort in making its country a second home to U.S. and other foreign business people. If investment abroad is in your plans, be certain to explore possibilities in Greece.

Trade Information Brought To You By These Leading Greek Organizations

Information in the April and May issues of *Nation's Business* on investment in and trade with Greece was made possible by the support of the following organizations. For more information on them, contact them at the addresses or telephone numbers listed below:

Commercial Bank of Greece.
Commercial Bank is equipped to provide all traditional banking services, but its specialty is providing financing to industrial firms seeking to undertake projects that will create Greek jobs and develop Greek regional economies.

Write: Mr. Peplelassis, 11 Sophocleous St., 102 35 Athens, Greece. Telephone: 3244.436

Greek National Tourist Organization.
This organization has as its twin goals promoting Greece's unsurpassed tourist attractions and assisting firms in the tourism industry that are interested in establishing facilities in Greece.

Write: Ms. Kouletsi, 2b Amerikis St., 106 71 Athens, Greece. Telephone: 3223.017

Hellenic Business Development & Investment Co.
This U.S.-managed company is empowered to make investments that will improve the infrastructure of Greek industry, facilitate and secure technology transfers, promote exports of industrial products, develop new markets abroad, and assist in increasing tourism in Greece.

Write: Messrs. Grimes and Leris, 32 Kifissias Ave., Atrina Center, 11th Floor, 151 25 Maroussi, Greece. Telephone: 6833.111

Hellenic Industrial Development Bank (ETVA).
ETVA was formed a quarter century ago through the consolidation of three public-sector financing organizations to help develop industry, mining, shipping, and tourism in Greece in accordance with the economic-development program of the government of the day.

Write: Mr. Georganas, 18 Panepistimiou St., 106 72, Athens, Greece. Telephone: 3627.968

Ionian Bank.
Greece's oldest banking institution is playing an active role in all areas of the economy, including investments, tourism, commerce, manufacturing, information, and services to emigrants.

Write: Ms. Staikou, 45 El. Venizelou & Pezmazoglou 18, 102 43, Athens, Greece. Telephone: 3225.485

National Bank of Greece.
More than a credit institution, this bank is the leader of a large group of subsidiary companies worldwide active in the credit, insurance, tourist, and industrial fields.

Write: Mr. Athanassoulis, 86 Aiolou St., 105 59, Athens, Greece. Telephone: 3240.410



PHOTO © JODI COBB—NGS/FPG CAMP

INSET PHOTOS: EMBASSY OF GREECE (LEFT) © ROBERT SEMENIUK—THE STOCK MARKET (RIGHT)

Greece, A Place You Must Explore

Whether you are looking for the vacation or the tourism investment opportunity of a lifetime, Greece is a place you must explore.

It should be no surprise that tourism has always been a vital part of the Greek economy. No other nation is blessed with Greece's bounty of history, culture, scenery, and aquatic-recreation opportunities.

More than 8 million tourists flocked to this paradise of islands in 1987, the last year for which data are available from the Ministry of Tourism. These visitors spent about $3.5 billion, approximately 7.8 percent of Greece's gross domestic product, and employed about 310,000 people.

"But we have reached the conclusion that Greece can no longer be merely a country that offers [very inexpensive] vacations of the type 'sun, sea, and sand,' along with several tours of classical antiquities," according to Nicholas Skoulas, minister for tourism. Greece's tourism-marketing strategy has changed, he recently told a business audience.

During the past decade, the numbers of tourists to Greece have been increasing at an annual rate of about 7.9 percent, according to government statistics. But mere annual increases in numbers of tourists will not be good enough to prepare Greece for economic challenges ahead, Skoulas said. Emphasis is being placed now on attracting selective, upscale visitors to luxury-class lodgings, restaurants, and recreation facilities such as golf courses, ski areas, marinas, and therapeutic spas.

This change in emphasis is providing tremendous new investment opportunities in tourism-related facilities. "There is probably no area more inviting to Greek and foreign investors now than tourism," Skoulas said.

Upgrading the physical infrastructure relating to tourism is such a high priority of the Greek government that it is offering generous incentives to private investors in this area. These incentives, under Law 2687/53, A.G.B.G.825/86 and Law 1262/82, generally consist of free capital movements, free government grants, which can be as high as 65 percent of the total cost of the project, interest-rate subsidies upper limits, accelerated depreciation rates, and tax allowances.

Further incentives for approved tourist incentives are provided under the Integrated Mediterranean Program (IMP). This program of the European Community, of which Greece is one of 12 members, is aimed at achieving approximate economic parity among member nations by 1992. This is the year members are scheduled to sweep away remaining obstacles to the free movement within the community of people, goods, services, and capital, thereby creating the world's largest and richest single market. The IMP incentives are similar to but higher than Greece's own incentives. Forms and amounts of incentives vary by project type and location.

Greece has four industrial regions, ranked "A" to "D." The Athens-Pireaus and Thessalonki areas are highly developed. Incentives for locating there are not as extensive as incentives for regions "B," "C," and "D," which increase in value according to such criteria as the prospects that ventures are judged to have.

Whether you are looking for the vacation or the tourism investment opportunity of a lifetime, Greece is a place you must explore.

Greek Chamber Seeks More Trade

The American-Hellenic Chamber of Commerce seeks to further economic relations between the U.S. and Greece. It represents and promotes the interests of its members, and helps facilitate commerce between the U.S. and Greece.

To those ends, the chamber seeks to acquaint and inform the members of the American business community residing in Greece about the economic environment and business practices of the host country. It also seeks to represent the Greek-American business community within Greek government departments and agencies, to aid and assist importers, and to provide a forum for exchanges of views on matters of mutual commercial interest.

The American-Hellenic Chamber of Commerce was established in 1932 as a nonprofit, self-supporting organization. As a policy, the chamber does not accept subsidies in any form from any governmental body, thereby assuring its independence in representing the Greek-American business community. The chamber's mission is strengthening the ties between Greece and the U.S. by promoting trade and economic relations between them. This is achieved through its 1,300 corporate members, consisting of all U.S. companies operating in Greece and many Greek enterprises doing business with the States.

For more information on the American-Hellenic Chamber of Commerce, write to Symeon G. Tsomokos, General Manager, 17 Valaoritou St., GR 106 71, Athens, Greece.


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THE RIGHT CLIMATE FOR GROWTH.

Office Services By Franchise

By Nancy Croft Baker

When Bob King set up the Atlanta branch of Long Island, N.Y.-based National Investor Data Services Inc., he didn't have the time or the budget to look for an office or hire support staff. He immediately had to start scouring the region for new clients. But he needed a place to confer with clients, and he also needed someone to answer his phone and type proposals. Fortunately, he happened upon Executive Business Centers Inc. (EBC), a company that provides shared office suites and secretarial support for small and start-up companies.

EBC is one of a growing number of franchises catering to a wide assortment of the needs of small businesses.



All that Bob King needs to run his Atlanta office comes from Executive Business Centers Inc., which supplies shared office suites and secretarial support for small firms.

PHOTO: JOE STEWARDSON

These franchises have proven especially useful, for example, in supplying equipment such as computers that smaller firms need only from time to time, or in handling tasks such as payroll processing that the companies prefer not to undertake themselves, or in offering a variety of office services.

EBC started selling franchises last year. Its franchisees, who pay a $25,000 initial fee, a 4 percent royalty, and a 4 percent advertising fee, provide clients with furnished or unfurnished offices, conference-room facilities, word processing, typing, and other shared services of secretaries and receptionists. Other amenities include a 24-hour call-in dictation service, notary public, mail room, fax machines, copiers, and graphic-presentation systems.

"EBC had everything I needed; it literally put me in business," says King. "And I love not having to worry about . . . personnel problems. EBC takes care of all that."

King leases two offices for $1,200 per month, which includes electricity, office cleaning, and use of the conference room. He pays extra for various secretarial services. Typing, for instance, costs approximately $22 per letter. "It's still cheaper than hiring someone full time," says King. The typical EBC tenant's lease averages $13,067 a year. The cost of conventional office space and similar amenities can run to $45,000 a year in some regions.

Since its founding in 1984, the company has opened 18 suites in the Southeast. It began selling franchises, says founder Tom Dye, after receiving many calls "from people wanting to buy franchises outside of Atlanta." The company has one working franchise and is negotiating with about 15 prospective investors.

Another franchise that serves the needs of small businesses is Personal Computer Rentals, of Coral Gables, Fla. It offers short-term leases of computer equipment to small businesses that only occasionally need computers.

Gail Ray started her computer-rental business in 1983 and has sold 60 franchises nationwide since setting up a franchise system three years ago. For anywhere from $600 a month to $100 a day, Personal Computer Rentals franchisees lease laser and other printers, projectors, and a variety of computers—from lap tops to desktops.

The customer base is not limited to small businesses, however. "Major corporations also have short-term needs for budget preparations, meetings, training, or replacement while awaiting repairs on their owned units," says Ray. "And we have a very strong business in conventions and trade shows."

The $25,000 franchise fee includes two weeks of training with the computers, as well as a software program that manages rental inventory and marketing. A field representative also helps set up the business site and recruits customers for a week in the local area.

Other support services include an advertising kit, direct mailings, a toll-free reservation and billing number for customers who are holding a conference out of town (the client is referred to the franchisee in that town), a company newsletter, and assistance with finding financing.

Like EBC and Personal Computer Rentals, Advantage Payroll Services (APS) has taken part of the day-to-day burden of running a company out of the hands of small-business owners. Its paycheck-processing service helps its clients "free up their time, so they can do what they do best—run a business," says Michael Martin, national director of franchise marketing.

"The tax structure" says Martin, "is always changing, and determining payroll taxes can be a real headache. We make payroll easy."

A small-business owner calls, toll-free, an APS franchisee once a week—or as often as employees are paid—to report employees' hours. The franchisee logs the hours on a master list and transmits them by computer to the franchisor's mainframe computer at the Auburn, Maine, headquarters.

The APS mainframe computer processes the paychecks, including all tax deposits, and sends the blank paychecks to franchisees, who type in employees' names. Franchisees also prepare quarterly tax forms free of charge.

"Most people who start a business don't have time to worry about keeping track of employees' hours and the changing tax code," particularly if they employ part-time and contractual workers, says Martin. More than 50 percent of Advantage Payroll Services' clients have fewer than 10 employees.

From equipment rental to payroll processing to complete office services only on request, the special needs of small businesses increasingly are being met by franchises.

Clients are charged by the check. A 20-employee company that compensates workers weekly, for instance, would pay $23.50 per week for APS to process its paychecks. Checks are drawn on the franchisor's account. Clients don't have to sign the checks or pay bank service fees.

Clients also receive weekly payroll registers, employee status reports, sick-time and vacation-time accruals and balances, federal job-cost affidavits, tip-allocation analysis, and reports on union dues and employee loans.

This spring, APS also will offer a Section 125 pretax medical-reimbursement plan, which allows employees to use pretax dollars to pay for insurance premiums, nonreimbursable health-care costs, and dependent care.

APS will administer employee-authorized salary deductions and automatically credit employees' benefits accounts. Medical expenses that are not paid by group insurance, such as dental, orthodontic, and vision-care expenses, are reimbursed directly to the employee every month.

APS franchisees, who generally work out of their homes, pay a $10,000 initial fee and half of their check-processing fees in lieu of a monthly royalty. In turn, they receive two weeks of training, customized software, assistance with local advertising, and individualized attention from one of the franchisor's 40 support-staff employees. APS, which has been selling franchises since 1983, has 22 franchisees in 14 states nationwide, says franchisor director Martin, and processes more than 42,000 checks a week. **NB**

Meg Whittemore, a Washington-based freelance writer, contributed to this article.

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PEOPLE

Making It

What stimulates the urge to buy? It can be a stuffed Christmas bear, or a magazine that speaks to military wives—or freshly made pizza.



PHOTO: © NIK WHEELER—BLACK STAR

Stanley Fishman, seated, and son Keith design promotional goods—everything from three-color cameras to cereal-box toys—to lure customers into retail stores.

"Merchandise That Motivates"

"The world," Keith Fishman says with obvious satisfaction, "is a frequent-flier club." He is speaking of the appeal of getting something valuable for nothing—or for very little—and he knows whereof he speaks. Fishman, 34, is president of Marketing Innovations International, of Calabasas, Calif. MII specializes in producing things that people get for nothing—or for very little—if they buy other things.

A few years ago, for example, department stores all across the country offered their customers the opportunity to buy a stuffed Christmas bear for a few dollars if they first spent considerably more dollars at the store. MII produced a lot of those bears.

It has produced none since 1986, however. Some stores were still offering bears last Christmas, but as far as MII was concerned, bears were passé. Its client stores were instead offering their customers such up-to-the-minute promotional goods as three-color telephones. And, like the bears, those phones were priced for much less—$7.50, with a $50 purchase—than what customers might have expected to pay for such an item at another store. The phones thus had what Keith Fishman calls a "high value perception."

Says Stanley Fishman, 56, Keith's father and MII's chairman and chief executive officer: "If something costs [the store's customer] $5, it's got to look like $50. That's tough; it's not easy to do." The dollar's decline has made it even tougher—most of MII's products are made in the Far East—but the revenues for the privately held company have exceeded $10 million in each of the past two years.

Stanley Fishman founded MII in 1981. He had spent 27 years in retailing, rising in the executive ranks of several large chains, when his two brothers lured him back to California from Minneapolis. His brothers run a company called Players International, which sponsors gaming tournaments at casino hotels. They wanted Stanley to help them come up with gifts for the participants in such events. It was a daunting task, because, as Keith Fishman says, "most of these players are in an income bracket where they can buy anything they want."

Even so, Stanley Fishman says, he spent half as much as his brothers had been spending and came up with gifts—silver ice buckets, crystal—of better quality. Then he began taking orders from the casino hotels, too.

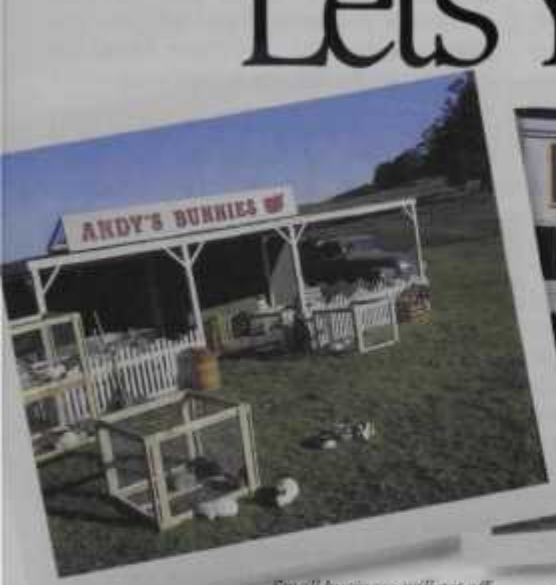
"The hotels are very much into name brands," he says. "I showed them wonderful merchandise from the same factories, but with the hotel's name on it. To this day, that's still our major thrust. We don't carry any name brands."

About 25 percent of MII's business is still with casino hotels, but now most of its sales are to retailers, and to manufacturers who want to promote their products through retail stores. The Fishmans have provided retailers with more than a million 35mm cameras in three-color housings, for instance, and they produced a tiny, bright-red radio for a glove manufacturer. MII applies a fashion gloss to "usable and practical items," Stanley Fishman says. "What we do is make them look great."

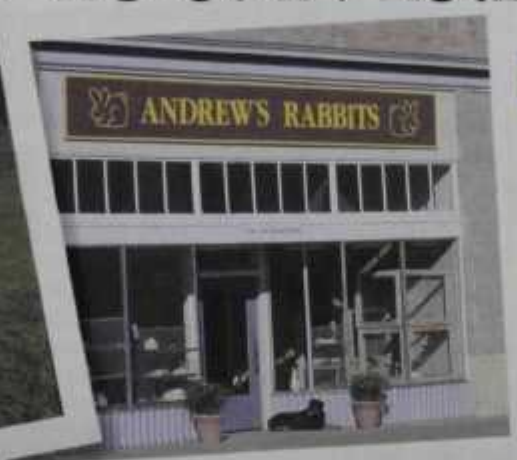
The Fishmans believe that the use of what Keith calls "merchandise that motivates" will soon spread to industries that now seem unlikely to adopt it; they will be ready to seize the opportunities. Says Stanley Fishman: "Somebody asks, 'Stan, what do you do?' I say, 'What do you want?' "

—Michael Barrier

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Targeting The Military Market

"Starting on a shoestring" doesn't begin to describe how Edward M. and Loretta M. Downey launched their magazine, *Military Lifestyle*, 20 years ago. They had only $20,000 for start-up costs, although advisers told them they would need at least $250,000.

When they put together the first issue on the kitchen table of their Chicago apartment, the Downeys knew little about the high-risk business of magazine publishing, and they knew even less about their readers—military wives.

Apart from Ed Downey's two-year stint in the Air Force in the early 1950s, they had no military background.

But they did know about advertising. Before they quit their jobs to start the magazine, both had worked for the J. Walter Thompson advertising agency. Loretta was a secretary, and Ed handled food accounts.

When a client expressed interest in developing a marketing program aimed at military families, Ed Downey's boss told him, "Go tell them why it makes no sense to advertise to the military; we already reach them through national advertising." Downey gave it his best shot, but he came back convinced that the client was right: The national media didn't adequately reach the military market, service newspapers focused on male readers, and there was no consumer magazine for military wives.

Having identified a publishing need, the Downeys decided to fill it with their own magazine, which they called *Ladycom*, military-style shorthand for "lady communications." Says Ed Downey, 58: "It was a marketing venture, pure and simple. There was no burning editorial idea behind it."

At first, says Loretta Downey, 44, "it was a real seat-of-the-pants operation." Potential backers were either afraid of investing in the publishing field, or afraid of investing in the military, or both. Everything that could go wrong did: They paid too much for printing and for office supplies, and their first office was in such a bad neighborhood that Loretta Downey was once mugged in the elevator.

The worst crisis occurred around the magazine's third anniversary, when they owed their printer $100,000. They had hoped the magazine would turn a profit after three years; instead, they were wondering what it would be like to go bankrupt. "We didn't own a house, we drove a second-hand Volkswagen," Loretta Downey recalls. "I remember waking up to ask Ed what could our creditors take, our pots and pans?" A helpful advertiser eased the crunch by paying for a year's advertising in advance.

It took five years for the magazine to turn a profit, but since then it hasn't looked back. In 1976 the Downeys moved the operation to Washington, D.C., because, Ed Downey says, "we wanted to have a higher profile in the military center of the United States." Circulation has grown steadily and now stands at 520,000; in 1988 the magazine grossed $6.5 million. With a staff of 22, it is outgrowing its plush Georgetown offices.

An important ingredient in the magazine's growth is its strong appeal to military wives. The publication is distributed free to shoppers in commissaries, the military equivalent of supermarkets. Almost everything in each issue, from service pieces to fiction to travel articles, has a military slant or addresses the special problems of military wives, who, says Loretta Downey, "are faced with constant moving, family separations, and yanking their chil-

When Ed and Loretta Downey, seen here in their Washington offices, realized that advertisers weren't reaching military families, they started a magazine to fill the gap.



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Targeting The Military Market

dren in and out of schools every two years."

In the early 1980s the Downeys became aware that men were reading the magazine, too. Servicemen and husbands began asking why there was no *Mancom*. "Today more than 10 percent of service members are women," says editor Hope Daniels. "A growing number of service spouses are men." So in 1985 *Ladycom* became *Military Lifestyle*. Men are frequently featured on the cover, and the magazine now includes articles on subjects such as family finances, computers, fitness, and sports.

In 1984, with the magazine firmly established, Ed Downey started another marketing venture, Military Audits of Market Information, which monitors sales and prices of consumer products in commissaries nationwide.

The company sells its monthly data reports to manufacturers, which use them to compare sales of competing products and plan future marketing strategies.

Military Audits, which grossed $3 million in 1988, "turned the corner in a year," says Ed Downey, "because we already had a track record in military marketing. Many of our potential clients already knew us through buying advertising in the magazine."

A third business—another magazine—is in the planning stage. The Downeys aren't yet divulging details about their new publication, but like *Military Lifestyle*, it will be aimed at the military marketplace.

—Lorna Williams

A Pizza The Action

For most Americans, buying a pizza to eat at home involves either calling a pizza parlor that delivers or stopping by a grocery store's frozen-food section. But in some regions, there is a third option, called "take-and-bake."

When you buy a pizza at a take-and-bake store, you typically get fresh toppings on flash-frozen, partially cooked dough. You take the pizza home, stick it in the oven, bake it for 10 or 12 minutes, and it's ready to eat—at a price perhaps one-third less than that for delivered pizza.

"We don't describe ourselves as the best pizza that some specialty cook is going to make for you," says Gary Alcombrack, founder of Saucy's Pizza Franchises Inc., of Everett, Wash. "On the other hand, we consider ourselves a whole lot closer to that than what you would get at the grocery store."

Gary Alcombrack holds one of the take-and-bake pizzas sold by Saucy's Pizza Franchises Inc., of Everett, Wash. After 10 minutes in the oven, the pizza is done.



PHOTO: © SAUCY'S PIZZA

The Pacific Northwest has been especially hospitable to take-and-bake pizza. Saucy's, whose 65 stores are concentrated in Washington, is one of the two largest take-and-bake chains; the other is headquartered in Oregon.

Most Saucy's units are in small towns with heavy blue-collar populations. The big chains "can't afford to be there," Alcombrack says, "because the draw isn't big enough. We go in there, in our 1,000-square-foot store, and we're the hottest thing since soup." A take-and-bake unit doesn't require a lot of money to install or operate—the start-up costs for a unit, including the franchise fee, can be as low as $42,000. With no expenses for an oven or for delivery, a Saucy's unit can thrive on revenues that would not support a more elaborate outlet. Systemwide sales have been running around $7 million annually, for an average of not much more than $100,000 per unit.

Saucy's targets franchisees whose ambitions are as modest as those of its customers. "We're never going to have a franchise that makes a franchisee a millionaire," Alcombrack says. "We sell to the people who want to make a good, decent living but don't want to take orders from the boss any more."

And, he says, franchisees find running a Saucy's store relatively trouble-free: "We are not a big, highly sophisticated company. If you can count to 40"—the number of pieces of pepperoni that go on a Saucy's pepperoni pizza—"you can just about make it."

Alcombrack, 38, and a partner started Saucy's seven years ago with one store in Everett. For the first few years, franchising "basically took care of itself," Alcombrack says, as potential franchisees sought them out.

But then Alcombrack and his partner had a falling out, and Saucy's began to feel the squeeze of intensified competition among the pizza chains, especially on its units near larger cities. Saucy's did almost no advertising—franchisees did not contribute to an advertising fund—and while the big chains were expanding their menus, Saucy's was still selling only pizza.

In 1987, Alcombrack stopped franchising for more than a year and started buying out his partner. Last year, things started looking up: Alcombrack took on a new partner; a few Saucy's outlets started selling frozen yogurt and submarine sandwiches as well as pizza, and their sales went up. Saucy's prepared to move aggressively into California.

Everything was falling into place—except the money to finance expansion. And so, in February, Alcombrack and his second partner sold Saucy's to Merjco, a San Jose, Calif., company that helps small corporations find financing. Says Ray Seewer, Merjco's president and now the president of Saucy's: "The company needs cash, and we're in the process of putting $800,000 into it now." He plans to take Saucy's on the same path that Alcombrack laid out, opening perhaps 50 more stores this year, most in California.

When he looked into buying Saucy's, Seewer says, he was amazed by how satisfied the franchisees were: "Very happy with the profits, very happy with the sales. Ninety percent of them are making money—that's a very high percentage."

Alcombrack remains with the company he founded, as a consultant.

—Michael Barrier

Personal Management

To Your Health

By Donna Freedman

Why Are You Hungry?

What does it really mean to feel hungry? Do you need food for physical nourishment—or for some other reason? Many people are unaware that their hunger often has no physiological basis.

Physical symptoms—stomach pangs or feelings of emptiness—generally accompany physiological hunger. Prolonged hunger often can lead to lightheadedness, headaches, or crankiness. Almost any form of food should alleviate these symptoms.

Psychological hunger, on the other hand, typically involves cravings for specific foods and is usually not accompanied by physical symptoms. It is triggered by internal or external stimuli that have nothing to do with the body's need for food. These stimuli can include emotions, stress, psychological problems, and the sight or smell of food.

Some people who think they are physically hungry have in fact learned to desire food in response to such stimuli. With psychological hunger, one can eat and eat without being satisfied. Such binging is an urgent attempt to make up for what is missing in some part of one's life. It is a signal that something is wrong.

The inability to distinguish physiological from psychological hunger can often be traced to infancy and childhood. If children are fed only to satisfy their need for nourishment, they generally will be able to distinguish between the kinds of hunger as they grow to adulthood.

Unfortunately, many children are fed for reasons that have nothing to do with physical sustenance. Often, when children cry because they are wet, unhappy, or restless, they are fed to keep them calm or quiet. Food also may be given to children as a reward or withheld as punishment. Turning the tables, some children learn to control adults, or to defy them, by eating to excess or refusing to eat. The pattern continues into adulthood. These children grow up unable to distinguish between psychological and physiological hunger.



PHOTO: ©JERRY MESMER—FOLIO

Eating habits usually are formed in childhood. Children who are fed only for nourishment should, as adults, be able to distinguish physiological from psychological hunger.

In adulthood, such people may use food to provide emotional release from situations that are difficult for them to handle. They may eat to calm themselves when they feel angry, frustrated, or depressed. Their excessive weight in effect shields them from their fears of dealing with intimate relationships or career opportunities.

Unfortunately, these people often attempt to regain control of their weight (and symbolically their lives) by manipulating food, through dieting, fasting, or purging. They suffer from the mistaken belief that thinness equals control, which in turn equals happiness.

When people turn to diets for these reasons, they ultimately fail, unless simultaneously they implement long-term lifestyle changes. How many people do you know who go on diets, lose weight, and then gradually add more weight than they originally lost? Each new failure lowers the dieter's self-esteem, so that he or she feels more depressed and stressed than before.

If you have problems like these, you *can* break out. The first step is to gain awareness. Listen to your body. Before you eat, ask yourself: Am I physically hungry? If you are truly physically hungry, drinking a noncaloric beverage or water or eating a food for which you feel no specific craving should satisfy your need.

If you know it is not physiological hunger that is driving you, try to remove yourself from the provoking stimuli and wait 20 to 30 minutes to see how you feel.

Try to understand what is upsetting you by thinking about the past 24 hours. Often, there is a delay between the original distress and the feeling of wanting food. Alternatively, your craving for food may be related to some anticipated distressing situation. If you can pinpoint the cause, you can work toward resolving the real issues.

Alone, or sometimes with professional help, people can learn to change their lifestyle patterns related to food. They can learn how to feel comfortable in their own bodies and how to recognize and respond correctly to their own cues and hungers. NB

Donna Freedman is a psychotherapist, lecturer, and consultant in private practice in New York City. She specializes in weight control and eating disorders.

It's Your Money

By Paul N. Strassels

Finding Lost Insurance Policies

A life-insurance policy—typically bought for the benefit of family members—may never benefit anyone if the insured person dies without disclosing the existence of the coverage.

The problem is that even though the deceased may have been covered by a half dozen or more life-insurance policies, the survivors may have no idea that some of those contracts exist—particularly if the person died unexpectedly. (About 100,000 of the 2 million deaths in the U.S. this year will be caused by automobile accidents, falls, drownings, fires, and other calamities.)

Unless a beneficiary—often a family member—files an appropriate claim after the death of an insured person, the death benefit may remain unpaid. No one knows how much life insurance goes unclaimed every year, but the amount is surely large.

To make sure your survivors receive the insurance benefits you have established for them, you should maintain an up-to-date list of all life insurance you have in force, detailing the name of the insurer, the agent who wrote the policy, the amount, any outstanding loans, the location of the policy itself, the policy number, and the named beneficiaries. Start with the larger policies and work down.

There's the life insurance you get through your employment. In case of your death, your beneficiaries will make arrangements with the personnel office to collect under the policy.

Then there is any personal insurance you may carry. Today, it is quite common to have three or four separate policies, often with different companies. Unless you list each policy in your personal files, the benefits may go unclaimed by your heirs simply because no one knows about them.

There can be other life-insurance coverage that is much less obvious. While none of the policies may be large, combined they can add up to a tidy sum.

- You may have taken out life insurance that pays off the mortgage on your home in the event of your untimely death.
- There may be similar insurance for your other installment debt.
- Some banks, thrifts, and credit unions provide small policies—a few thousand dollars—for each of their depositors.
- One or more of your credit and travel cards may provide accidental-death coverage of $25,000 to $250,000 for your plane or train trips that you charge on the card.
- Your health insurance may have a life-insurance component—typically, $10,000.
- Your auto, homeowner's, or renter's policy may have a small amount of life insurance.
- You may get life insurance along with your membership in fraternal organizations and social clubs.
- Veterans of the armed forces may have government-provided life insurance.

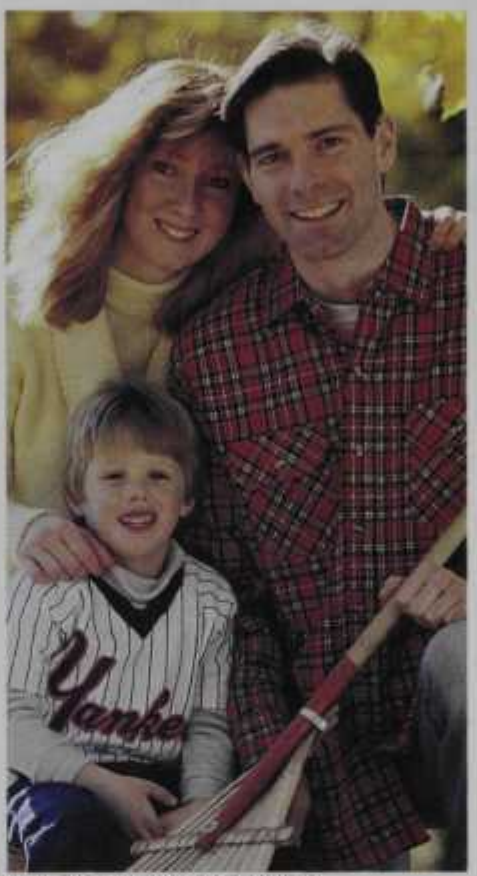


PHOTO: © MICHAEL A. KELLER—THE STOCK MARKET

A life-insurance policy to provide for your family should you die is a good buy. But if your survivors don't know the policy exists, the death benefit could remain unpaid.

Unfortunately, all of this protection will go for naught unless the survivors have a list of all the policies so they can file claims. In making a claim, it is best to contact the original agent. If that is not possible, contact the insurance company's local office to find out about claims procedures. Ordinarily, to file a claim, you must supply the Social Security number of the deceased, a death certificate, and the policy number. If the policy has been misplaced, the company can search its records.

If you have any doubt that all of the deceased person's life-insurance policies have been accounted for, there are six steps you can take to find policies that may have been misplaced or overlooked:

1. Go through the deceased's papers, address books, and telephone-number lists to look for life-insurance policies and the names of insurance agents. Contact every company with which the deceased had a policy, even if you're not sure it is still in force. The insurer can check for you, and there is no fee for the service. Old policies usually have the applications stapled to them, and applications commonly list other insurance that is in force. Check out the listed policies, too.

2. Contact the employee-benefits officers at the deceased's latest and previous places of work. Employers often allow employees to convert life insurance to personal policies when they leave.

3. Look through the deceased's bank books and canceled checks for the last two years to see if any checks have been written to pay life-insurance premiums.

4. Watch the deceased's mail for the next year. Premium notices are usually sent annually. Often, however, a policy will be paid up, so there are no premium payments or notices. Still, the company should send annual updated correspondence about the status of the account, including the current death benefit, cash value, and so on. Or the company may pay a dividend. It will come by mail.

5. Review the deceased's last two income-tax returns. Look for interest income from and interest expenses paid to insurance companies. They pay interest on accumulations on whole-life policies and charge interest on policy loans.

6. If you suspect that someone who recently died held one or more life-insurance policies but you just can't find any papers, ask the American Council of Life Insurance to conduct a free policy search for you. Send a self-addressed stamped envelope, and request a search form. After you submit the form, the organization will check 100 of the largest insurance companies. The search can take three to six months. Write: Policy Search Department, ACLI, 1001 Pennsylvania Ave., N.W., Washington, D.C. 20004-2599. NB



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For Your Tax File

Estimate Carefully To Avoid Penalties

By Gerald W. Padwe, C.P.A.

Most corporations pay estimated taxes, and so do many individuals who have income—such as interest and dividends—that is not subject to withholding. Since an estimated tax payment for a given year may be due as much as a year in advance of determining the final tax liability for that year, the difficulties of making appropriate estimates are obvious.

The penalty for underestimating your tax liability is significant. It is equal to the interest rate on tax deficiencies at any given date—currently 12 percent a year—for the period of the underpayment. Keep in mind that such payments are penalties and cannot be claimed as deductions.

At a 34-percent top corporate tax rate, the equivalent deductible interest charge that equates to a 12 percent penalty is 18 percent. This is a rather significant fee for missing the admittedly difficult task of estimating current-year tax.

Recognizing this difficulty, the law provides various safe harbors that, if met, can help you avoid any estimated-tax penalty even if the required estimated taxes have not been paid for the year. The most common safe-harbor exception involves basing this year's estimated tax on last year's actual tax. Depending on whether you are an individual or a corporation, a limited number of other exceptions may also apply.

Many penalties in the Internal Revenue Code also contain a subjective exception. Where a taxpayer acts in good faith and has "reasonable cause" for an action, the Internal Revenue Service, at its discretion, may waive certain penalties.



Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.



ILLUSTRATION: DAVID CHEN

Until recently, estimated-tax penalty waivers were not possible, since there was no statutory provision allowing the IRS discretion in this area. In the past, if a taxpayer fell within the arithmetic boundaries of an estimated-tax underpayment, the penalty was automatic and final.

Interestingly, as the law has become significantly more complex over the past decade and the estimated-tax provisions themselves have become much more difficult to understand and comply with, Congress has finally begun to enact some limited waivers of estimated-tax penalties.

In some cases, they have not been at the discretion of the IRS but have been required by law.

Numerous amendments to the Internal Revenue Code included in the 1988 Technical and Miscellaneous Revenue Act (TAMRA) have effective dates going back to 1986. Because taxpayers were not permitted by the IRS to assume the passage of any technical-corrections bill and were required to report transactions on returns under a different set of rules than everybody "knew" would be the final law, there is a provision in TAMRA requiring waiver of some estimated-tax penalties. These waivers arose from installments of estimated taxes made earlier in 1988 that were correct based on the law when the installment was paid, but that turned out to be low based on the law retroactively applied after passage of TAMRA late last fall.

Accordingly, if you receive a notice from the IRS stating you owe a penalty for underestimating 1988 tax, talk with your tax adviser before paying the bill. It is just possible you may be entitled to a waiver if the penalty arose as a result of one of the retroactive TAMRA changes.

Penalty Proliferation

Experienced tax practitioners would find it difficult to list more than 20 or 25 of the more than 150 penalties in the Internal Revenue Code. This great array of penalties has grown from myriad tax acts, statutory provisions, and perceptions by the government of abuses for which sanctions must be applied. Each one, at its time of enactment, probably made good sense to the governmental force behind it.

Penalty proliferation has been particularly acute during the 1980s, and over the years the result has been "penalty chaos."

As a result, several groups, both in and out of government, have been reviewing the code's penalty structure with an eye to reform.

Perhaps the most interesting report to date is one released recently by a special Internal Revenue Service task force reporting directly to the IRS commissioner. The task force has recommended a substantial number of changes for the IRS and, presumably, the Congress to consider. Any alteration in tax penalties would have to be enacted by the Congress.

Perhaps the most dramatic recommended changes are in the area of taxpayer conduct. The present structure, involving a 5 percent penalty for negligence, a 25 percent penalty for taking an aggressive position on a return without disclosure, and a 75 percent penalty for civil fraud, would be replaced with a different three-tiered penalty approach.

Under the proposal, failure to exercise reasonable care in filing a return or making disclosure would be subject to a 20 percent penalty, willfully or intentionally filing an incorrect return would produce a 50 percent penalty, and civil fraud would cause a penalty of 100 percent.

Congress will not enact penalty reform overnight. But this is an area that will be receiving increased scrutiny, and the task force report will certainly be influential as the debate proceeds. NB

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A Rose By Any Other Name

By Paul N. Strassels

For years, the Internal Revenue Service has been searching out employers who intentionally misclassify some or all of their employees as independent contractors. Thousands of dollars in unpaid payroll taxes can be at stake.

The law says that every employer who is supposed to withhold payroll taxes is liable for the payment of those taxes regardless of whether they actually are collected. What's more, every corporate officer and employee who is responsible for withholding and making payroll deposits and who willfully fails to withhold, account for, or pay such taxes to the IRS is personally subject to a penalty equal to 100 percent of the amount of tax. This personal liability cannot be avoided through bankruptcy.

When an employee joins a company, the firm not only pays his salary but also pays the employer's share of Social Security taxes, which this year come to 7.51 percent of the first $48,000 in salary. In addition, the employer collects and remits the employee's share of Social Security and withholding taxes and often provides, among other benefits, vacation and holiday pay, sick leave, retirement plans, and life, health, and disability insurance.

However, if the firm, rather than hiring an employee, uses the services of an independent contractor, it saves all those taxes, fringe benefits, and a good deal of time spent on paperwork.

But don't be tempted to misclassify someone who does work for you. No matter how much might be saved, an employer is not permitted to classify a worker as an independent contractor when in fact that worker is an employee. That's true even if the worker agrees to the classification.

A person is an employee when the employer has the legal right to control and direct the work that is done. In general, self-employed individuals are not employees. They include physicians, attorneys, veterinarians, contractors, real-estate agents, and others in an independent trade in which they offer their services to the public. However, when a worker is told when to work, where to work, how to work, and with whom to work, that individual is a statutory employee, and the employer is responsible for collecting and paying payroll taxes.



Paul N. Strassels, president of Money Matters Inc., Burke, Va., is a tax-law specialist and financial adviser.



PHOTO: ©SANDY ROESSLER—THE STOCK MARKET

This interior decorator decides when, where, and how she works, and she qualifies as an independent contractor; employees have less leeway.

Hold The Phone Deductions

Whether you work out of your house or simply take work home in your briefcase, none of the costs of your local telephone service can be deducted in figuring your federal taxes even though you sometimes may use your home phone for business. However, business-related long-distance charges are deductible, as are all charges for a second line devoted exclusively to business.

For Tax Crises, Use 911

A new Internal Revenue Service form for use in tax emergencies has a familiar numerical ring: Form 911 carries the same number widely used for calling the police or fire department. The new form is to be used when you have a tax crisis, specifically to apply for relief when IRS collection efforts put you in significant hardship. For example, if the IRS were ready to seize funds that you needed to pay for surgery, you would use Form 911. The form goes immediately to the Problem Resolution Office at your local IRS office.

Simpler Kiddie Taxes

Here's good news for parents who have struggled to fill out separate tax forms the past two years for each of their children under 14 who had more than $1,000 in investment income. Beginning with your 1989 tax return, you will be allowed to report the child's income on your own return and pay tax on it at your tax rate, as long as the income is under $5,000 and consists only of dividends and interest.

Certitude With Certified Mail

Courts have ruled repeatedly that the cancellation mark provided by the U.S. Postal Service is the only proof they will accept when deciding if a tax return, refund claim, or suit in Tax Court is filed on time. When sending important and timely correspondence to the IRS, use certified mail and request a return receipt. That way, there is no question of the IRS mishandling your papers.

Stay Put For Moving Expenses

Up to 20 percent of American households move every year or two. For moving expenses to be deductible, the move must be work-related. To enforce that, the law requires that employees work at least 39 weeks during the 12 months following the move. Those who are self-employed must work full time 78 weeks out of the next 24 months. If you violate the work rule, the moving expense is lost—retroactively. That means an amended return is required for the year you claimed the expense.

However, there are three exceptions to the work rule. You can keep the moving-expense deduction if your company requires you to accept a transfer that you didn't request; or if you are fired for other than willful misconduct; or if you miss work because of illness, strike, or a shutdown of your workplace.

There are two additional considerations. The work rule can be satisfied with more than one job, so if you leave one position, you must take another in the same geographic locale. And if you are married and file jointly, only one spouse must satisfy the work rule. NB

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THE NATION'S BUSINESS

Where I Stand

Results of this monthly poll are forwarded to top government officials in the White House and Congress.

1. Make Firms Provide Health Insurance?

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2. Impose Import Fee On Crude Oil?

Some members of Congress favor imposing a tax on crude oil and refined petroleum products imported into the U.S. They have varying motives, including aiding America's depressed energy industry, enhancing national security, and raising revenues. But opponents contend that an oil-import tax would artificially increase the price of energy, thereby harming businesses requiring large amounts of fuel for transportation, heating, or manufacturing. Opponents also believe a large tax increase of any kind would likely produce a recession. Should Congress impose a tax on imported oil?

3. Create Trust Fund For Land Acquisition?

A proposal before Congress would take sufficient revenues from the Treasury to establish a trust fund that would yield more than $1 billion annually for land acquisition. Supporters believe off-budget acquisition, which would circumvent the normal appropriations process, is the only way to preserve America's environmental heritage. Opponents contend that trust-fund administrators, operating without congressional oversight, would lock up the acquired lands so that their resources could not be tapped. Opponents also note that the proposal would increase the budget deficit. Should Congress create a land-acquisition trust fund?

Verdicts On March Poll

Here is how readers responded to the questions in the March issue.

	Yes	No	Undecided
Should Congress tax capital gains at a lower rate?	79%	16%	5%
Should education-loan interest be fully tax-deductible?	75%	20%	5%
Should Congress make permanent research-and-development tax credit?	58%	25%	17%

Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

New Challenges, New Opportunities



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Examples of positive government action supported by the Chamber include two

[illegible]here I Stand
[illegible]OTE On These Issues

	yes	no	unsure
[illegible]sue #1	☐	☐	☐
[illegible]sue #2	☐	☐	☐
[illegible]sue #3	☐	☐	☐

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8) Financial Mgr.
10) Other

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1989 ANNUAL REPORT

New Challenges, New Opportunities



PHOTO: CAMERON DAVIDSON

The U.S. Chamber of Commerce scored major legislative victories for business in the past year under the leadership of Chairman William S. Kanaga, center, Vice Chairman John L. Clendenin, right, and President Richard L. Lesher.

The past year has seen great strides and legislative victories for the U.S. Chamber of Commerce—and the country.

Viewing the national scene, Chamber Chairman William S. Kanaga says: "We have enjoyed the longest period of continuous economic growth, more Americans are on the job than ever before, and we've seen major advances in industrial efficiency and productivity."

The Chamber, the world's largest business federation, was at the forefront of efforts that produced those achievements.

The Chamber-led efforts concentrated on blocking government actions that threatened continuing growth and supporting those that would contribute to economic health. For example, the Chamber's opposition to mandated health coverage was an important factor in the defeat of organized labor on this issue. Through a strong campaign, the Chamber showed that the proposed legislation to require all employers to provide comprehensive medical coverage to employees would be so financially burdensome, particularly to small businesses, that it would drive many firms out of existence.

The Small Business and the Employee Relations Policy centers are establishing a Partnership on Health Benefits and Employment to fight mandated health insurance and develop suitable alternatives that would not put excessive burdens on business.

Vigorous efforts by Chamber members and staff also were instrumental in squashing the proposed legislation on mandated parental leave, the minimum wage, and comparable worth in the 100th Congress. Each proposal would have imposed costs that businesses, particularly smaller ones, could not afford.

Examples of positive government action supported by the Chamber include two major victories on behalf of free trade. The first occurred with the signing of the Omnibus Trade and Competitiveness Act of 1988. The Chamber was a key player in ensuring that this legislation would enhance U.S. competitiveness while rejecting protectionism. The International Division's guide on the bill, *The Omnibus Trade and Competitiveness Act of 1988: A Straightforward Guide to Its Impact on U.S. and Foreign Business*, was the first and most sought-after publication explaining the trade measure.

The Chamber also won a major victory for business in the U.S.-Canada Free Trade Agreement.

Kanaga says of this treaty: "Happily, we can now look forward to a gradual elimination of trade barriers with our largest single trading partner."

The Chamber is closely monitoring implementation of both the trade bill and the Canada agreement, advising the business community on how to take advantage of the opportunities of both.

Labor and trade were just two of the issue areas on the Chamber's active business agenda during the past year. The business federation testified or presented statements to congressional committees 45 times and submitted 142 separate mailings on legislative matters. Chamber staff alone had more than 2,000 contacts with members of Congress or their staffs. The Chamber also kept members aware of legislative and regulatory issues through the Congressional Action Committee Network, made up of about 2,800 local committees of Chamber members.

The Chamber's representing of business resulted in a successful legislative year. The Chamber participated in 80 issue coalitions involving hundreds of business organizations working toward the same legislative objectives. The Chamber played a leadership role in 50 percent of them. The Congressional Relations Division chaired a strategy team that met 37 times during the 100th Congress to work on 21 issues. Altogether 267 Chamber staff members took part.

The business federation's leaders and staff members meet routinely with members of Congress and the executive branch to present the business community's views on critical matters. In addition, the Chamber's member grass-roots network, one of the most efficient and influential in operation, is mobilized to let Con-

New Challenges, New Opportunities

gress know business people's opinions. The network is kept current through *Congressional Issues*, an annual reference book detailing major business-related subjects, periodic updates in *Congressional Action*, and special reports during the legislative process.

But the Chamber doesn't wait for a new Congress to convene before launching initiatives to ensure the business viewpoint gets a sympathetic hearing in the national legislature. The Political Action Department is committed to the election of pro-business candidates to the House and Senate. The Chamber, along with its political action committee, the National Chamber Alliance for Politics, has scored impressively in the political arena. In the 1988 elections, the Chamber endorsed 190 candidates, and 167, or 88 percent, won election to the 101st Congress.

Those successes followed a highly impressive record in the 100th Congress. The Chamber's legislative "Scorecard" showed business had 46 legislative wins, 7 partial victories, and 16 losses.

In 1989 the Chamber will confer a new honor, its "Spirit of Enterprise Award," on members of Congress whose voting records show strong support of business.

Although business had many achievements last year, the AFL-CIO had successes as well, and the labor organization is once again pressing its agenda in the liberal-minded Congress. Chamber Chairman Kanaga says: "The Congress is in an anti-business mood. We are looking down the legislative barrel at a wide variety of intrusive proposals, all of which pose serious problems for business. Make no mistake, all those expensive labor and employee benefit laws [would] have a devastating impact on our economy." Mandated health insurance, the minimum wage, parental leave, and comparable worth continue to be pressing issues.

Two of business's legislative setbacks last year were in the labor area. One of the measures that became law prohibits the use of the polygraph in most employment-related tests; the other requires advance notice to employees and affected communities of the closing of business operations. Although the Chamber opposed both of these bills as unwarranted government intervention in management rights, it assisted businesses through publication of guides on compliance, such as *The New Federal "Plant Closings" Law: What Employers Should Know*, prepared by the Labor Law Action Center.

Here is a report on Chamber activities in other areas of concern to members:

President Ronald Reagan greets Chamber Chairman Kanaga, Vice Chairman Clendenin, and President Lesher at the federation's 76th annual meeting. In a rousing speech to the nearly 4,000 business people at the meeting, the president praised the Chamber for its leadership and asked the membership to "keep America on the path to the future."



PHOTO: T. MICHAEL KEZA

Labor/Employee Benefits Issues

The Labor Law Action Center was an effective force in assuring that the AFL-CIO's successes were limited to the polygraph and plant-closing bills in the 100th Congress. Among the center's victories were the defeat of the anti-double-breasting bill, which would have prevented construction companies from having union and non-union operations, and of the airline labor protective provisions, which would have provided wages and benefits for up to five years for airline workers displaced by mergers.

The center was also active in efforts to prevent drug abuse and scored a legislative victory with its work on the omnibus drug bill's "drug-free workplace" provision. The center has revised its publication, *Drug Abuse in the Workplace: An Employer's Guide for Prevention.*

Congress is also likely to address AIDS-related employment issues, and the Chamber's Employee Relations Policy Center has published *AIDS: An Employer's Guidebook* to help small and medium-sized firms address the complex issue.

The Small Business and the Employee Relations Policy centers are working aggressively to repeal Section 89 of the tax code, which imposes highly complex new regulations on employee-benefits plans and is especially onerous to the small-business community. The Chamber is forming a coalition to seek changes in the immigration law to meet our economic needs while our domestic labor pool is shrinking.

This effort to expand the work force results from the unprecedented economic growth that the U.S. has been enjoying.

Fiscal Policy

The Chamber is leading another battle to maintain economic growth—this one against higher taxes.

The Chamber was the major architect of the "fair and flexible freeze" plan to bring the federal budget into balance by restraining the growth in federal spending. Under this plan, spending could go up at the rate of inflation, and economic growth would shift the budget into surplus by 1993 without a tax increase. That plan, developed by the Chamber's Economic Policy Division and presented to both political parties during their platform hearings last summer, is the centerpiece of President Bush's fiscal policy.

The Chamber's fiscal-policy initiatives include the formation of the Coalition for Fiscal Restraint (COFIRE) to achieve budget balance without tax increases. As a further means of curbing federal spending, the Chamber is continuing its campaign to enact reforms in the budget process, such as a biennial budget, line-item veto, and a balanced-budget amendment with constraints on tax increases.

The Chamber is leading the fight for a reduction in capital-gains tax rates, which are closely related to economic growth. The Chamber cites recent history in which federal revenues and private-sector employment have increased under a lower capital-gains rate.

The Chamber also is calling for deficit reduction through privatizing some government functions and facilities.

"Privatizing closed military bases," explains Chamber President Richard L. Lesher, "has been a win-win situation. With the available resources being used

Chairman Kanaga thanks former Secretary of State George Shultz for his many years of service to the country and presents him with a token of the Chamber's appreciation.

Shultz addressed the November 1988 Chamber Board of Directors meeting, where he commented on the spread of democracy throughout the world and the importance of free enterprise.



PHOTO: T. MICHAEL KEZA

for business, overall employment has increased substantially."

In other actions in the fiscal area, the Chamber won a major victory in passage of the Taxpayer Bill of Rights, which sets up new protections for individuals in disputes with the Internal Revenue Service.

Legal And Regulatory Issues

The Legal and Regulatory Affairs Department is developing a special grass-roots network to increase the department's efforts on procurement legislation. With such a tool, the Chamber hopes to defeat any counterproductive moves to reform federal procurement policies in a way that penalizes business excessively.

Prospects for passage of a uniform federal product-liability law have improved over the past year, and the Legal and Regulatory Affairs Department continues its leadership role in that effort.

The department's handbook, *The Employee Polygraph Protection Act: A Guide to Compliance*, describes the restrictions under the Employee Polygraph Protection Act of 1988.

Resources

The Resources Policy Department helped win congressional repeal of the "windfall profits" tax on crude oil and is continuing to play a leadership role in public-awareness campaigns on energy-related issues. The department is taking a leadership role on the emerging issue of global climate change and helped judge and promote the "Take Pride in America Program," which honors organizations for improving the nation's environment.

The department was a leader in the Senate defeat of the largely redundant High Risk Occupational Disease Notification Act, and it will continue to guard business's interests in pending changes in the Clean Air Act. Staff members will continue membership briefings on solid-waste management, and the department has published a guide on the subject, *The Greatly Growing Garbage Problem*.

In 1988, the Food and Agriculture Committee established a panel of 18 scientists and technologists to examine the federal regulatory laws and programs on food and advise the Chamber on policy initiatives.

Resources Policy continued its work with the U.S. Department of Housing and Urban Development and the New York City Partnership concerning business and the entrepreneurial American city.

International

In the international arena, the two major trade bills made up only part of business's achievements. The investment and export climate received a further boost through the reauthorization of the Overseas Private Investment Corporation and establishment of a business advisory committee to help the U.S. and Foreign Commercial Service support U.S. exporters. The Chamber's International Division worked to bring about both of those developments.

The division has formed a subcommittee to track the progress of the European Community in its efforts to create a unified internal market by 1992. The group will link U.S. business with Congress, the administration, and the Europeans.

The Chamber will continue to work closely with officials involved in negotiations for a new multilateral trade agreement under the auspices of the General Agreement on Tariffs and Trade.

A total of 12 business councils and 60 American Chambers of Commerce abroad present the concerns of U.S. business directly to foreign governments and business leaders, and foreign trade missions and world leaders continue to meet with Chamber staff and members. Among the foreign dignitaries with whom Chamber representatives conferred last year were Prime Minister Rajiv Gandhi of India, President Kenan Evren of Turkey, Prime Minister Karoly Grosz of Hungary, and President Jose Sarney of Brazil.

Federation Development

The Chamber's strength in support of business comes in large part from its organization members—1,100 trade and professional associations and 2,800 chambers of commerce. It is through the Federation Development and Field Operations Division that the Chamber communicates with these member organizations to develop support on issues critical to business.

The Association Department works exclusively with trade and professional association members and keeps them apprised of issues unique to nonprofit management. Its services include a series of *Special Reports*, management and issue-related publications, a job-referral service, and the Association Insiders breakfasts featuring speakers in key congressional and administrative positions.

The Office of Chamber of Commerce Relations works exclusively with state and local chamber of commerce members and provides them with more than 30 books, pamphlets, and newsletters containing advice for their staffs, volunteers, and members. A 25-year-old accreditation program, successfully completed by more than 540 chambers, helps these organizations develop solid management structures. A job-placement program offers counseling to chambers seeking chief staff executives and publishes a "Positions Open Bulletin."

Integral to the Chamber's success are its regional offices in New York, Chicago, Dallas, and San Francisco, which bring Chamber services directly to members at the grass roots.

The organization's high degree of member involvement is vital to all Chamber activities because, Lesher explains, "Our policy comes from the grass roots."

Members have direct input into the Chamber's decision-making process through polls of the membership in *Nation's Business*, the Chamber's monthly magazine, and through the Business Ballot, a regular survey of members, as well as through task forces and committees

New Challenges, New Opportunities

At left, President Bush meets with Chamber President Lesher and Chief Economist Richard Rahn, who pledge their opposition to tax hikes. Then-Rep. Jack Kemp, center, speaks at an NCF conference. Then-U.S. Trade Representative Clayton Yeutter, at left below, and William T. Archey, a Chamber vice president, discuss the trade bill.





PHOTO: T. MICHAEL KEZA



PHOTO: T. MICHAEL KEZA

whose member volunteers represent a cross section of members. Ultimate responsibility for policy is held by the board of directors, which is made up of a cross section of membership.

The Briefing Center, another key component of the federation's development operation, in 1988 conducted 278 sessions on legislative issues to encourage members to take part in Chamber activities.

Briefings also provided an opportunity to showcase the Chamber's new Briefing Center, library, and several other public meeting and conference rooms. The long-term financial support needed for refurbishing these facilities came from the Spirit of Enterprise Fund.

In 1988 the fund-raising campaign reached its goal of 95 percent of its targeted $35 million. A major undertaking of the fund is the restoration of meeting rooms in the Chamber headquarters to their original elegance.

The Chamber's outreach programs last year took the organization into classrooms. In January 1988, the federation inaugurated a student-loan program for members' employees and their families. The U.S. Chamber ConSern: Loans for Education Program, launched by the Development Group and the Communications Development Department together with University Support Services Inc., already has more than 6,000 participating companies. Through this program, more than 2 million people are eligible for education financing.

Communications

Activities of the Chamber's Communications Group continued to increase last year.

"Nation's Business Today," produced by the broadcasting division, BizNet, just completed three successful years on ESPN, the nation's largest cable network. The two-hour morning business-news program is now carried on the U.S. Information Agency's Worldnet system, which transmits daily to 100 countries in Western and Eastern Europe, Africa, the Near East, South Asia, East Asia, and the Pacific Rim. The program can be seen domestically in 52 million homes and more than 1 million hotel and motel rooms.

The U.S. Chamber's broadcasting division continues expanding its audience and advertising reach. Nearly 16 hours of commercial business programming are produced each week for a cumulative reach of more than 8 million viewer impressions. Advertising support of Chamber programs in the past year surpassed the previous year's record by 24 percent.

"It's Your Business," the weekly debate program on critical policy issues, is entering its 10th year in national syndication and celebrated its 500th broadcast in April. It remains the country's most widely syndicated commercial public-affairs program, carried on more than 150 stations and The Learning Channel cable network.

The Chamber's daily call-in talk show, "Ask Washington," continues to be successful. Now in its sixth year, the program celebrated its 1,500th broadcast in March, with 40 commercial stations and The Learning Channel cable network presenting the show to over 32 million homes.

In November, BizNet hosted its first live videoconference on German-U.S. trade relations, linking business leaders in Washington and Frankfurt via satellite. The sixth annual videoconference on Japan-U.S. trade, held in March, again brought together business leaders in Tokyo and Washington to discuss trade and other economic issues.

The Communications Development Division collaborated with Junior Achievement and BellSouth Corp. in the 13-week TV interview series "Living Legends," which appeared on "Nation's Business Today." The program featured laureates of the National Business Hall of Fame, and the taped series will be kept in the hall of fame's video library at the Museum of Industry and Science in Chicago. A second series will appear in 1989.

Other media efforts have brought hundreds of reporters and editors to various Chamber events about five times a month to learn about business's positions. Through press releases and other programs of the Media Relations Department, the Chamber has been quoted in media worldwide more often than three other major business groups combined. "Media tip sheets" summarize the federation's stands for about 150 local and state chambers.

In the Chamber's publishing area, more than 850,000 subscribers of *Nation's Business* are briefed each month on legislative and regulatory matters and receive guidance on management problems, learn effective business techniques from articles on successful entrepreneurs, receive advice on financial and tax issues as well as health matters, and get answers to their business-related questions. Last year, the magazine published "Your Small Business Survival Guide," which contains questions frequently asked in the magazine's business-advice column, "Direct Line."

Last year the magazine launched Ad Plus, a highly successful package sale of advertising with the "Nation's Business Today" and "It's Your Business" TV programs. Already, 31 leading business-to-business advertisers have committed $7.5 million to this effort.

Business Advocate, the Chamber's other major business publication, scored a successful year in providing issue-oriented news every month to 210,000 subscribers. Separate corporate and small-business

Chamber President Lesher shows Vice President Quayle "How They Voted," a Chamber publication that gave the former senator a 100 percent positive rating for votes on selected issues.



PHOTO: T. MICHAEL KEZA

Carl Grant, right, Chamber group vice president for communications, greets Treasury Secretary Nicholas Brady before his appearance on "Nation's Business Today."



PHOTO: T. MICHAEL KEZA

editions focus on concerns of the different readerships.

The Chamber's continuing efforts to reach out nationally and internationally are paying dividends. The business federation is a trusted source of information, with both Republicans and Democrats attending meetings and turning to our issue managers for help. As Lesher says, "Our credibility is great even with those who don't always agree with us."

One of the most important developments now affecting the enterprise system, Chamber leaders point out, is the extent to which nations throughout the world are rejecting communism, socialism, and other types of controlled economies in favor of the capitalistic approach. "We are embarked upon a new era of economic enlightenment," Kanaga explains. "Even citadels of communism, such as China and the Soviet Union, are loosening economic controls to stimulate private-sector initiatives. We can all take pride in knowing that the U.S. Chamber of Commerce . . . is contributing greatly to this renaissance that holds so much promise for the future." NB

Championing Free Enterprise

The U.S. Chamber's four affiliated organizations successfully champion free enterprise through their research, education programs, international development work, and legal action.

The affiliates are the National Chamber Foundation, the Center for Leadership Development, the Center for International Private Enterprise (CIPE), and the National Chamber Litigation Center.

Here is a brief summary of each organization's work:

The National Chamber Foundation's year was highlighted by its farewell tribute to President Reagan at a November conference titled "The Reagan Legacy: Worldwide Economic Growth." The president gave a major address on trade policy, and J. Paul Sticht, chairman of the foundation's board, presented the president with a plaque in appreciation of his "dedication, commitment to principle and selfless courage." Sticht commended the president for his leadership that awakened the world to the "destructive folly of socialism."

In 1988, NCF completed important research studies on mandated benefits, substance abuse, and disability management in the health-care area. It published 15 major research studies as well as the *Journal of Economic Growth*.

The Center for Leadership Development, the foundation's educational arm, completed its 67th year of providing continuing education. Last year, CLD conducted professional-development programs for 2,351 association and chamber managers and staff members. CLD also completed the establishment of a program in Central America, funded in part by the Center for International Private Enterprise (CIPE), another Chamber affiliate.

The CLD programs were recently recommended for credit by the American Council on Education, making participants eligible for 12 undergraduate semester hours after completing the curriculum.

CIPE, the Chamber's newest affiliate, was created five years ago under congressional mandate as the business representative in the National Endowment for Democracy. CIPE last year funded 19 new programs of business-oriented democratic development in 12 developing countries. CIPE collaborated with the U.S. Information Agency on a series of teleconferences in Latin America exploring trends toward market economics in countries that are progressing toward democracy.

The Chamber's public-policy law firm, the National Chamber Litigation Center, again demonstrated that it is one of the leading proponents of the business community in the judicial area. Last year NCLC championed business's interests before the courts, achieving 10 victories against four losses. Its most important victory was in *Boyle vs. United Technologies*, in which the Supreme Court held that government contractors are not liable for design defects in equipment manufactured according to government specifications and approval.

In addition, the Chamber scored a victory in *National Treasury Employees Union vs. Von Raab*, in which the court approved drug testing of some government workers in sensitive jobs.

It also participated in the following cases, which are expected to be decided this term: *Wards Cove Packing vs. Atonio*, on the use of statistical evidence of racial imbalance in the workplace to prove racial discrimination; and *Mead Corp. vs. Tilley*, on employees' entitlement to unearned pension benefits before the assets of an overfunded terminated pension plan can revert to the employer.

NCLC's first book, *100 Ways To Cut Legal Fees & Manage Your Lawyer*, is now in its second printing.

COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

Union Advantage In Construction



PHOTO: ©WAYNE EASTEP—THE STOCK MARKET

Double-breasting has become very common in the construction industry. This practice allows an employer to participate in the ownership or management of separate companies—one union and one nonunion.

Rep. William Clay, D-Mo., has introduced H.R. 931, the Building and Construction Industry Labor Law Amendment of 1989. The bill would amend the National Labor Relations Act (NLRA) to prohibit double-breasting, and it would allow common situs picketing in some instances.

With significantly declining union membership—80 percent of employees on major construction projects in 1965 were union members; today, the figure is under 27 percent—the AFL-CIO has turned to Congress to change the rules and reverse its fortune.

H.R. 931 would upset the balance in labor relations in the construction industry and could force tens of thousands of workers into collective-bargaining units without their casting a single vote on whether they want to be union members.

This measure would increase commercial and industrial construction costs; decrease competition; and increase labor disputes, delays, picketing, and secondary boycotts.

Furthermore, complaints of double-breasting abuses are very rare and already have a remedy available under the NLRA.

Contact your representatives to urge them to oppose any proposal that would prohibit double-breasting.

Arctic National Wildlife Refuge



PHOTO: ©M.E. WARREN—UNPHOTO

S. 406, the Arctic Coastal Plain Leasing Act, introduced by Sen. Bennett Johnston, D-La., and strongly supported by the business community, would permit safe and environmentally sound oil and gas development in the Coastal Plain of the Arctic National Wildlife Refuge in northeastern Alaska. S. 406 has been approved by the Senate Energy and Natural Resources Committee. A similar bill, H.R. 49, has been introduced by Rep. Don Young, R-Alaska. However, bills to prohibit oil and gas exploration have been introduced.

Geologists believe that this area may contain more oil and gas than any other site in the U.S., including Prudhoe Bay, which provides 20 percent of all U.S. supplies.

The bill contains many environmental safeguards and is critically important to meeting the nation's energy requirements. It would help to reduce oil imports, which now account for 50 percent of U.S. consumption, and would help to trim the nation's trade deficit, 25 percent of which results from oil imports.

Contact your representatives and senators to urge them to support this important energy-supply legislation.

Campaign Financing



PHOTO: ©PETE SALOUTOS—THE STOCK MARKET

Spending for last November's elections continues to fuel the debate on campaign-finance "reform." Numerous bills introduced in the 101st Congress would set spending limits or would institute taxpayer financing of congressional campaigns.

Limiting private campaign contributions would curtail political participation and choice by individuals, groups, and businesses—participation that is essential to maintaining democracy.

Federal financing of congressional campaigns would force taxpayers to fund those with whom they disagree, and it also could increase the federal budget deficit.

The Senate Rules Committee is scheduled to consider a bill introduced by Sen. David Boren, D-Okla., that limits the use of campaign funding.

Contact your senators and representatives to express your opposition to measures restricting participation and choice in the political system.

COMMENTARY

Editorial

The Democrats' proposal to raise the minimum wage deserves defeat because it is inflationary, unnecessary, and harmful to business.

Congress' Minimum-Wage Bill: What The Outcome Will Say About Who's In Charge



PHOTO: © MICHAEL PATRICK—FOLIO INC.

The plan of liberal Democrats in Congress to raise the present $3.35-per-hour minimum wage by 36 percent over 25 months would seriously damage the national economy and penalize those it purports to help.

Thousands of jobs would be lost. The inflationary impact would hurt all workers, including those the increase is supposed to help. The first rung on the ladder of economic advancement would be raised beyond the reach of increasing numbers of unskilled young people who traditionally have looked to entry-level jobs for the training they lack.

Ironically, the dispute over a higher minimum wage is reaching its climax at the very time that the free market, which *should* make these decisions, is making its own adjustments to meet changing conditions. The labor force in many parts of the country is shrinking. Employers in those regions are setting wages at the levels needed to attract workers. In many cases, those levels are not only higher than the current minimum but also higher than those proposed in the pending legislation. In other areas, the labor force and available jobs remain more in balance, at least for the present, and wage levels reflect that situation, also.

Just as economic conditions in a given area form the most effective determinant of wage levels, the individual employer is in the best position to know how much of an investment the company can reasonably make in hiring and training unskilled workers while maintaining wage scales that will motivate its experienced workers. Minimum-wage legislation substitutes the decisions of far-off lawmakers ignorant of competitive demands on a given business for decisions of employers dealing with those demands on a daily basis.

And arguing that no worker should be expected to support a family on minimum-wage pay is no argument for an increase. The fact is that very few minimum-wage workers are the sole support of their families.

Although the Democrats control both houses of Congress, it will take more than their simple majorities to make the final decision on the minimum-wage bill they are pressing in the face of all those solid arguments against it. President Bush has made a firm commitment to veto it. After that, supporters would have to muster two-thirds support in each house to override a veto. The challenge for business at this point is to give the president all possible support for his pledge to veto the bill.

Although this minimum-wage bill deserves a solid defeat based on its own lack of merits, it should also be considered in a larger context of the future of the full range of antibusiness legislation now picking up steam in Congress.

Awaiting their turn behind this measure are such familiar proposals from organized labor's legislative agenda as parental leave, mandated health benefits, comparable worth, federally subsidized child care, a ban on double-breasting (under which construction companies now may have both union and nonunion operations), and occupational-risk notification. Like the minimum-wage bill, all these proposals would add substantially to business costs. Their cumulative impact would force many firms to make inflationary price increases or go out of business.

The Democratic maneuver of moving the minimum-wage bill as the first of the labor-oriented measures scheduled for action represents a direct challenge to the president. They want him to surrender on this issue because they know the outcome will establish the environment in which the others will be considered.

If the veto is overridden and the wage bill becomes law, the gates could be opened to the rest of the labor bills that would have such a devastating effect on the economy. If the veto prevails, the president will have established himself as a firm, forceful leader able to challenge the Congress and win when he considers the public interest in jeopardy.

In the wake of a defeat of the pending proposal, the Bush administration could make a further contribution to economic health by reconsidering its support for a minimum-wage increase smaller than the one being pushed by the Democrats.

A healthy, low-inflation economy is a precondition to achievement of the president's goal of a balanced budget without tax increases. A minimum-wage increase that would eliminate jobs and worsen inflation would undercut his balanced-budget strategy.

That strategy has overwhelming public support. He can count on that same degree of support in opposing actions that threaten his fiscal goals. NB



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